



Vision: integrated industrial intelligence

Commitment: Built to last

CORPORATE PROFILE

Matrikon™ is an international company focused on delivering integrated industrial intelligence software and professional services that empower our industrial customers to achieve a step change in operating results through improved efficiency, optimized performance, improved reliability and regulatory compliance. Our core business is transforming plant data into actionable business information to predict and prevent problems, identify opportunities to improve operations and plan and execute production more efficiently.

Matrikon's solutions and professional services are used by a broad industrial client base including industry leaders in oil and gas, refining and petrochemicals, power and utilities, pulp and paper, and mining and mineral processing.

Toronto Stock Exchange: MTK

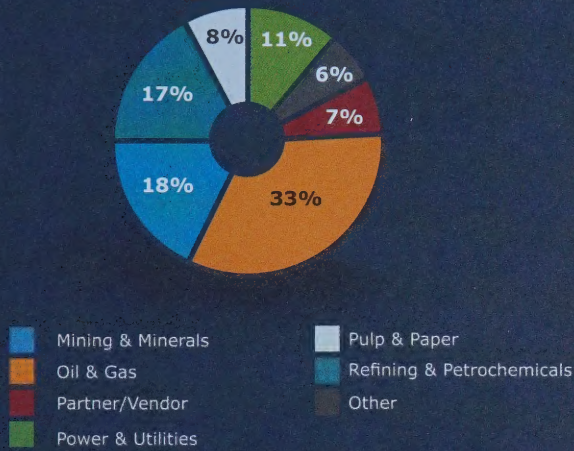
Financial Highlights (CAN \$000s except EPS or otherwise indicated)	2006	2005	2004 Restated ¹
Revenue	73,821	67,813	54,396
Cost of sales	33,291	31,094	27,185
Gross profit	40,530	36,719	27,211
Gross margin (%)	55%	54%	50%
Expenses			
Consulting	9,148	8,030	6,448
Sales & marketing	9,270	8,098	7,428
Research & development	3,809	3,388	2,991
General & administrative	7,865	5,854	5,160
Net income	5,132	5,232	2,037
Earnings per share – basic	0.17	0.175	0.07
Earnings per share – diluted	0.16	0.171	0.07
Cash from operating activities	7,405	6,361	3,464

Financial Position

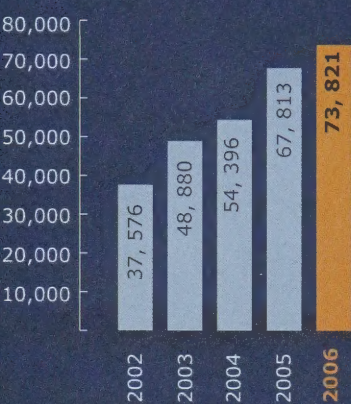
Total assets	64,474	55,507	43,044
Total liabilities	16,515	14,285	10,868
Shareholders' equity	47,959	41,222	32,176

¹ Restated to reflect current presentation of stock based compensation

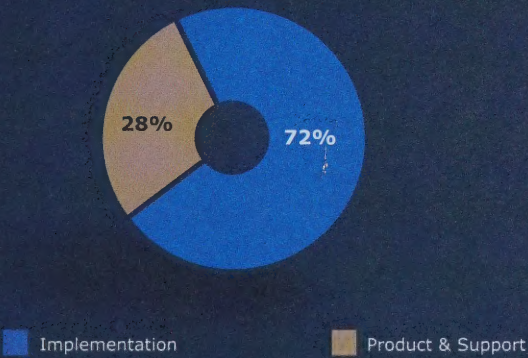
REVENUE BY INDUSTRY



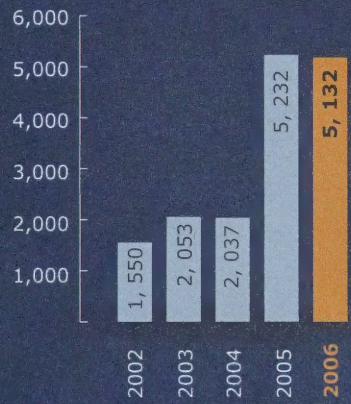
REVENUE (\$000s)



REVENUE BY TYPE



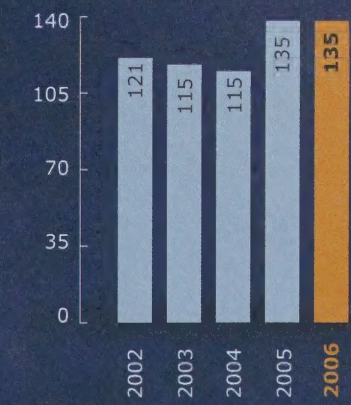
NET INCOME (\$000s)



EMPLOYEES BY TYPE



REVENUE PER EMPLOYEE (\$000s)



2007 OBJECTIVES

We remain committed to sustainable, long-term growth. As such, we are no longer providing guidance for revenue and earnings growth, but are instead focusing on longer-term initiatives and key performance indicators (KPIs) that demonstrate progress against our strategy. These KPIs for 2007 include:

Growth

- Grow product revenue (license & support) by 15-20%
- Increase average daily rate by 8-10%
- Sell three to five MI3™ solutions
- Complete acquisitions to complement growth strategy
- Increase average project value by 5-10%
- Grow distribution channels through Partner Growth Program
- Expand footprint in key geographies, including the United States, Europe and Asia

Delivering Value

- Maintain focus on delivering value to customers

Technical Innovation

- Develop industry solutions based on MI3
- Continue MI3 integration and product development



MISSION STATEMENT

Delivering value: our business.

We integrate the best technology with the best people to deliver a total solution that meets or exceeds our clients' expectations while continuing to create shareholder value.

Innovative solutions: our edge.

We combine innovative technology, a strong commitment to R&D and our own process optimization expertise to deliver truly innovative solutions.

Exceptional people: our advantage.

We employ, develop and empower the best people in the industry. Matrikon is built on their knowledge, their dedication and their energy.

Customer satisfaction: our priority.

At Matrikon, our highest priority is turning customer service into customer satisfaction. We are dedicated to delivering value and building strong, long-term partnerships with our clients.

Protecting our assets: our commitment.

We are committed to protecting the health and safety of our employees, our customers and our stakeholders; to protecting the environment; and to making the communities where we live and work a better place.

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MI3: Matrikon Integrated Industrial Intelligence

Imagine an information system that organizes your data according to how you think about the real world.

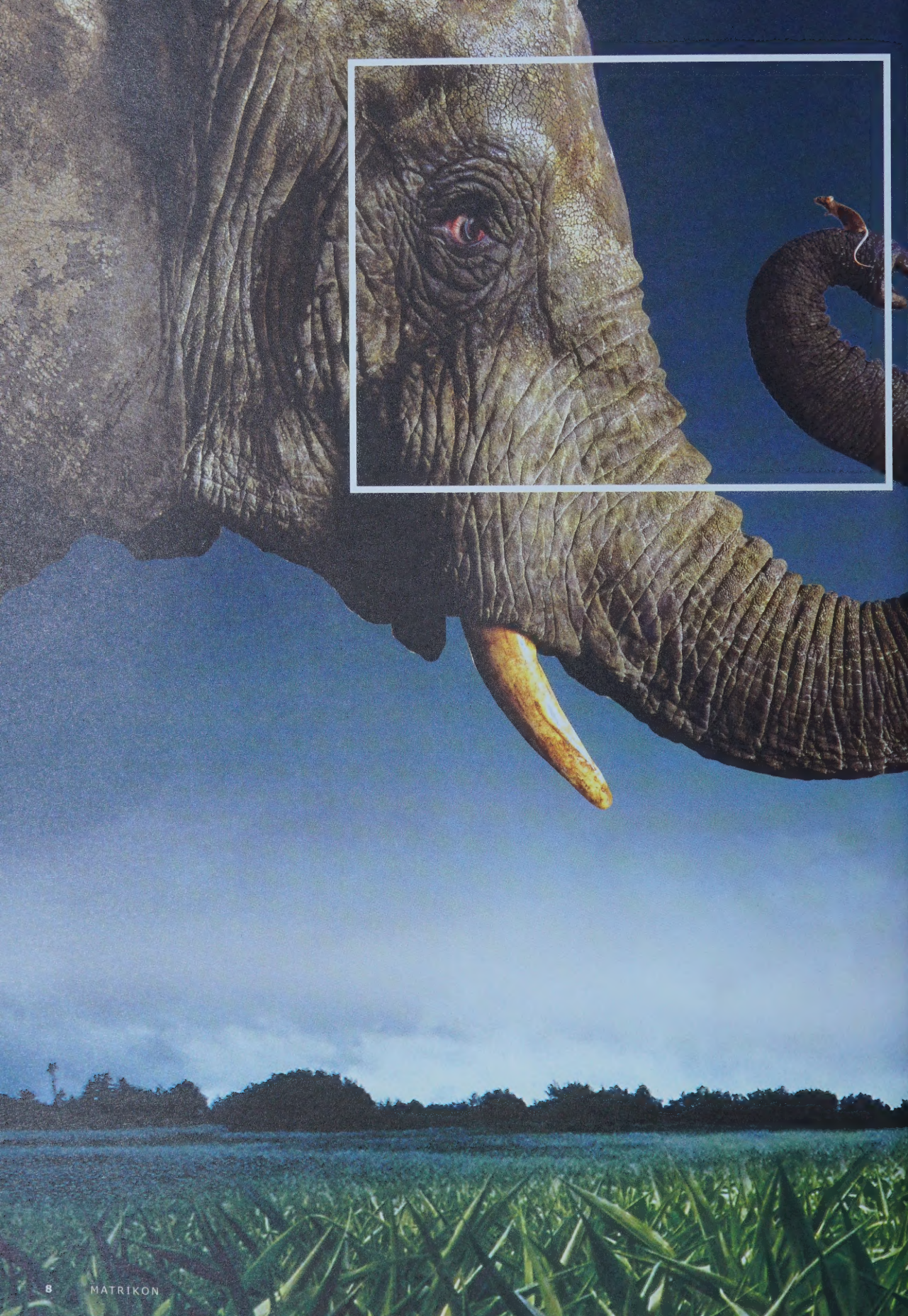
Imagine an information system that lets you see your data in all of its contexts.

Imagine an information system that lets you access all of your plant's existing data systems from the same screen.

Imagine an information system that lets you see your company in a whole new way.

Matrikon Integrated Industrial Intelligence (MI3) unifies your entire operation and transforms data into information.

MI3 is our vision for a framework that will revolutionize how process and manufacturing data is managed, used, translated and audited. While we continue to develop high value industry solutions based on MI3, the MI3 platform exists today. Over the next few pages, we share our MI3 story.



The need M13 answers

**"Knowing in part may
make a fine tale, but wisdom
comes from seeing the whole."**

Your company is under pressure to perform. Market deregulation, globalization, and increasing regulatory compliance requirements have resulted in increased market volatility, tighter margins, and pressure to reduce costs. You need to do more with less.

For your company to succeed, you need to make the right decisions quickly. You need to know the best way to allocate resources. You need to know that your plant is meeting environmental and safety regulations. But the information you need isn't always easy to find.

If you're like most companies in the process industries, you end up using an improvised mix of spreadsheets and information systems – from distributed control systems to production accounting systems – to run your operation. Each of these systems may do a good job of managing tasks for one group of users. But they also create data silos: large bodies of data that can't interact with one another. Data silos keep you from seeing the whole picture about your operation. Like a mouse looking at an elephant, you only see what is right in front of you.

You can try to piece together data from these various silos, but the process is slow and a waste of time and skill for everyone involved. Even worse, the results aren't worth all the effort. With too much room for human error and differences of opinion about how to arrive at "the right number," the data isn't dealt with in a consistent fashion. And you still can't see the data in all its different contexts.

You need a reliable, consistent way to join data silos so that you can see data beyond the information system that produced it. You need to see data in all its relevant contexts. And you need to free up your staff so that they can focus on the jobs you hired them to do.



Mi3: Elevating industrial performance through intelligence

Mi3 lets you see the whole picture.

- Mi3 connects and consolidates your data – everything from real-time production data to maintenance data to lab data to safety and environmental data.
- Mi3 organizes your data and places it in relation to other data. The result: data can be seen in all of its contexts, beyond the information system that produced it.
- Mi3 automates repetitive tasks such as transferring or reconciling data. Not only does this save time and allow people to get on with the jobs they were hired to do, it also ensures that rules are applied and calculations performed in a consistent manner.
- Mi3 provides a single user interface. You can use this interface to view your data as trends, schematics, reports, or tree maps. You can also access other information systems from this same interface. Imagine being able to view all of the information about the performance of a piece of equipment and launch a work order from the same screen.
- Mi3 supplies data to other applications within your operation. This means that your entire company uses the same data everywhere.
- Mi3 ensures that your data is completely auditable. Not only can you be confident in the accuracy of your data, auditors and regulators can see that the numbers are correct and how they have been derived.
- Mi3 is vendor neutral, and so respects your IT investments. You can use your existing databases and applications – you don't have to replace anything.



How M13 helps

M13 is based on Matrikon's core competency of connectivity within manufacturing and production facilities. Fundamental to this is the ability to organize your data. M13 enables you to create a model for your data – in other words, you describe the real world of your plant and the connections between its parts. For example, you can define the following:

- equipment location hierarchy
- equipment lineups, including time spans and equipment overlap
- states of materials (for example: raw, work-in-progress, finished)
- categories of materials (for example: product family, chemical composition, hazardous nature)

With these real-world elements of your plant defined, M13 then creates connections between these elements and your data. This means that you can find your data in terms of its physical meaning instead of its tag number.

With your data organized and easy to access, you can:

- Improve the quality of your raw data through M13's mature data-cleansing and reconciliation tools to produce accounting-quality values.
- Use M13 as a platform for other applications that help you to fine-tune your business processes.
- Share information across your company using M13's user interface.
- Continuously improve operations using M13's knowledge-capture and collaboration tools.

Let M13 help you see your company in a whole new way.

SCORECARD

2006 OBJECTIVE

✓ Met or exceeded
✗ Not met
□ Actual result

Genworth

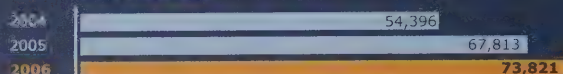
Revenue growth of 10% to 15% (\$75 to \$77 million)

Met revised objective:
Revenue of \$72 to \$75 million

✗
9%
increase

Original guidance from 2005 annual report. Revised guidance in third quarter earnings announcement.

Revenue (\$000s)



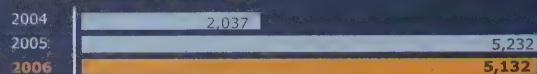
Net income growth of 34% to 62% (\$7 to \$8.5 million)

Met revised objective:
Net income of \$4 to \$5 million

✗

Original guidance from 2005 annual report. Revised guidance in third quarter earnings announcement.

Net Income (\$000s)



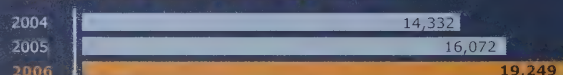
Product revenue (software licenses and extended support) growth of 30% to 50% (\$20.9 to \$24.1 million)

Met revised objective:
Product revenue of \$17 to \$20 million

✗
20%
increase

Original guidance from first quarter earnings announcement. Revised guidance in third quarter earnings announcement.

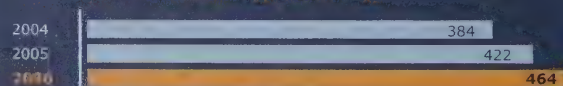
Product Revenue (\$000s)



Increase average project value (projects over \$100,000) by 10% (\$0.46 million)

✓
10%

Average Project Value (\$000s)



Number of Projects



Achieve gross margin of 54% to 56%

✓

Gross Margin (%)



Achieve net income margin of 9% to 11%

✗
7%

Original guidance from 2005 annual report. Revised guidance in third quarter earnings announcement.

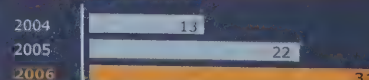
Net Margin (%)



Increase number of corporate license agreements

✓

Corporate License Agreements



✓ Met or exceeded
✗ Not met
() Actual result

2006 OBJECTIVE

Delivering Value

Continue to monitor and improve customer satisfaction



Feedback from our customers:

- "We've worked with Matrikon since 2002 and one thing that is very unique is that we actually see the feedback we provide incorporated into the next release of the product."
- "The people of Matrikon are very passionate about delivering value to the customer...they put that into everything they do."
- "There are very few companies out there who treat you like you're important, no matter what size you are. Matrikon does that very well."

Product Development

Integrate Resolution and Matrikon technology into the MI3 platform:



- 2 clients by end of calendar year 2006

- MI3 was officially launched at our annual users conferences in Australia (March) and North America (May)
- 2 MI3 clients year-to-date

Value Added Services

Increase average daily rate by 10% to 12%

✓
11%

Average Daily Rate



Achieve \$1.80 in implementation revenue for every \$1.00 in product license revenue



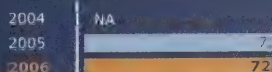
\$1.00 product revenue: Implementation revenue



Increase utilization rate to 79%



Utilization (%)



*Utilization rate calculation method was changed beginning in the first quarter of 2006. It is now based on a standard 260 workdays per year with no allowance for statutory holidays or vacation days taken. This change reduces utilization rate in comparison to prior presentation. Under this calculation, the 79% target is unrealistic.

Utilization throughout the year was significantly impacted by the hiring of new consultants, who typically require up to a quarter to be fully trained and utilized.

Health, Safety & Environment

Achieve health, safety and environment certificate of recognition status



Achieved Alberta three-year certificate of recognition in November 2005

Achieve zero lost time accidents



1 lost time accident occurred in 2006. The incident did not affect operations

Achieve 100% compliance with mandatory HSE training



70% compliance achieved in 2006

LETTER FROM THE PRESIDENT & CEO



Dear fellow shareholders:

Technology companies must continually evolve in order to survive and grow as the world rapidly changes all around us.

First and foremost, technology itself is changing rapidly as new innovations are introduced. Second, the needs of our clients in the industrial world are changing. They are under immense pressure to do more with less as they face global competition, a shrinking pool of expertise, aging infrastructure and high variable costs such as raw materials and energy. Finally, our competitive market is changing rapidly as well. Off shoring, both technology development and service capability, to lower cost-base countries is a growing trend. Less than five years ago, Canada was the lower cost base country. Today, Alberta has become expensive, with high salaries and a Canadian dollar that is stronger than it has been in decades.

At Matrikon, we recognize that change is inevitable – it creates challenges and opportunities. And thus, we must continue to evolve to meet the challenges and take advantage of the opportunities. In this environment of change, we have steadily transitioned, retooled and reformed to continue to successfully grow the company. Understanding this transition will help to understand where we are today and what the future holds for Matrikon.

Matrikon in Transition

Over the past eighteen years, we have evolved from system integrator (low-cost service provider) to a products company to total solutions provider.

Along with this evolution came a necessary transition in our cost base and operating model: from a local company with no sales and marketing or research and development infrastructure, to an international company with significant investment in these areas. Now as a total solutions provider, we are also investing significantly in industry-specific domain expertise to provide support on industry specific solutions.

Interestingly, although our overhead costs as a system integrator were low, our profit margin was also low due to competitive pressure. As a products company, we were able to increase profit margins in spite of increasing overhead costs by focusing on higher-margin product sales.

Now as a solutions company, even though overhead costs continue to increase, we expect to again increase our margins. This is possible because the value that our solutions deliver increases significantly. As a solutions company, we expect to sell more product *and* receive higher rates for our consulting expertise to implement the solution and equip each customer to take advantage of it.

Solutions are what our customers are looking for today. Their capability has been diminished through staff shortages and lost expertise. Thus, they look to Matrikon and our professional services staff to ensure that these complex solutions are integrated and institutionalized within their business process to really deliver the value they are designed to deliver.

Through this evolution, our competitive landscape also changed: from hundreds of system integrators competing to provide similar services to dozens of product companies competing with our technology. Today, only a handful of companies are capable of offering solutions based on the broad technology suite, industry depth, and consulting expertise that Matrikon offers.

OUR VISION

To be the market share leader in the operations performance management space with M13.

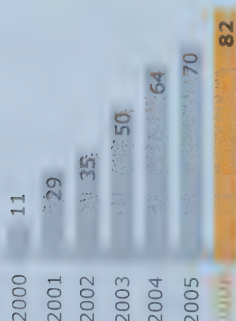
OUR COMMITMENT

To build Matrikon to last.

US\$ Exchange
(annual average):



Sales & Marketing Staff
(year-end):



Average Project Value (projects over \$100k):



As we transitioned, we faced and overcame many internal and external challenges: increasing labour costs, shifts in the economic cycles of our core industries, increasing overhead costs, and the gradual increase in the Canadian dollar. We achieved this by consistently increasing the value delivered to our clients, establishing long-term partnerships with them, and differentiating our solution offering from the competition.

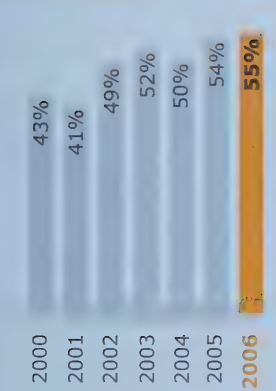
In 2006, some of these external factors shifted much faster than we could adjust. The strength of the economy, the Canadian dollar and the labour market all played a role in our results. However, I believe we are well positioned to overcome these factors and grow profitably over the long term.

Built to Last

We have a clear vision of where we are going and what we need to do to achieve the next chapter in our evolution. Our overarching goal is to build Matrikon to last: through steady, conservative growth and our commitment to continual profitability.

Our strategy is focused on three areas fundamental to our continued growth: global expansion, technological innovation and industry diversity.

Gross Margin:



Global Expansion

Our global presence is critical as we develop partnerships with multinational clients. We will continue to expand globally through organic growth, acquisition and partnerships with distributors to continue to grow our presence in international markets. Regions of particular strategic focus include the United States, Europe, the Middle East and industrialized Asia.

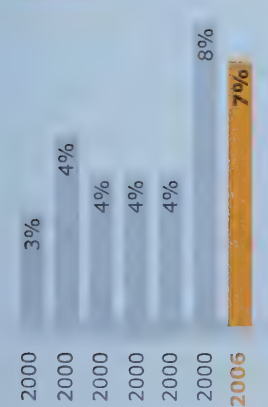
Technological Innovation: MI3

Today, we are relentlessly focused on building and leveraging MI3, the foundation for our integrated solutions. This is our vision for the future.

MI3 is the integration of our existing products to deliver various industry specific solutions through a single integrated platform. We will continue to invest in and expand our products and develop solutions, and as we do so, they will become part of MI3.

We enjoy a position of tremendous technology leadership with our mature and expanding product suites. These products, coupled with our professional service organization, are the foundation for the total solutions that deliver significant value to our customers and therefore to our bottom line. We continue to gain market share in a growing market. Our market share was 1.9% of the \$3.5 billion US market in 2006, up from 1.7% in 2005 and 1.4% in 2004. Even more exciting, the market we serve is projected to reach \$5.3 billion by 2010.

Net Margin:



Industry Diversity

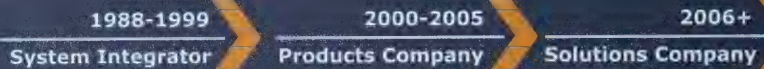
Over the past few years we have focused on growing our market presence in each of our core industries: oil & gas, refining & petrochemical, power, mining and pulp and paper. Today, we have a very solid base of blue chip customers. In fact, over 60% of the companies (in our target industries) on Fortune magazine's Global 500 ranking are included on our customer list. And there is plenty of upside potential to expand our footprint with each and every one of these companies.

While the global resource sector remains strong, our technology and our solutions deliver a compelling value proposition whether these sectors are at the top of their cycle (focused on increasing production) or at the bottom (focused on increasing efficiency and saving costs). A large factor in our success in 2006 has been the growing traction of our oil and gas solutions. We will continue to invest in the development of industry solutions that address our customers' key problems.

Continual Improvement

We are committed to continual improvement while building Matrikon for the long term. Thus, to complement our offensive strategy, we have a defensive strategy focused on two key areas: improving efficiencies and making effective use of our growing cash balance.

We are investing in the infrastructure that can help us grow beyond \$100 million in revenue. We continue to identify opportunities to improve efficiency, enable more agile response to business changes, improve our financial and business reporting, and better integrate various business processes including sales, human resources, project management and accounting.



And we are focused on making effective use of our growing cash balance (we grew our cash balance by almost \$8.00 million in 2006) by improving our return on cash through various investment strategies, including accretive acquisitions that complement our growth strategy. Particularly, we are interested in acquisitions that will fast-track our geographic expansion plans, supplement our current industry solutions and extend our product distribution channels.

Exciting Times Ahead

Despite foreign exchange headwinds, we executed well on our strategy and laid the framework for our vision in 2006. We have a singular focus on continuing to grow while building Matrikon to last. We are not only focused on remaining profitable, but on continuing to improve our profit margins. At the same time, we are mitigating the risks that we face through technical diversity, geographical diversity and industry diversity.

The future will not be without challenges. We continue to fine tune our practices to ensure that Matrikon is an employer of choice and assist with attracting and retaining employees in a heated labour market. We continue to develop our project management best practices to ensure the efficient execution of larger, global scale solutions. We continue to build global capacity by developing partners in emerging economies. And we remain committed to delivering value, not only to our customers, but also to our shareholders through a sustainable growth strategy.

I am excited by our future prospects and look forward to the challenges and rewards that the next phase of our evolution will bring.

Sincerely,

Amin Rawji
President & CEO

LETTER FROM THE CHAIRMAN



Dear fellow shareholders:

From my new vantage point as chairman of the board, I remain involved in our company and its strategy. The theme of 2006 has been Focus. Focus on building the framework for the future of the company and its solutions. Focus on the strategic plan. Focus on creating the right environment to execute the plan. Focus on investing in the infrastructure to grow not only in the coming year, but to grow over the long-term and take Matrikon to the next level.

Although our financial performance in 2006 was mixed, I believe the foundation is in place. The strategic plan is solid, and is being executed systematically to deliver sustainable growth. The MI3 strategy has taken shape. We continue to expand globally to position Matrikon to deliver total solutions while maintaining our commitment to customer intimacy. We continue to invest in our people. And we continue to make progress in penetrating our core industries.

Many have wondered what prompted me to leave the company I founded and built for 17 years. Quite frankly, I am a deal-maker and an entrepreneur – that is where my true passion lies. Matrikon, on the other hand, had reached the stage where significant structure, focus and commitment to a long-term vision were necessary to achieve the next stage of growth. It was the right time to transition to a team which had that discipline to focus on building Matrikon for the future.

We experienced some initial growing pains with some turnover at the senior management level. Although the turnover created some external uncertainty, it did not impact our business because capable and committed individuals inside the organization were ready to step up. We have always been and remain committed to developing leaders from within the company and it is this commitment that enabled a seamless transition.

Speaking on behalf of the board, we are generally pleased with the progress Matrikon has made in 2006. Following our strategic planning session this summer, we believe that the strategy going forward is solid and the foundation to achieve the strategy is in place.

Our board remains committed to strong governance practices. Some of the highlights of our governance program are outlined on page 21. I am pleased that each of our independent board members has dedicated themselves to another year of effective stewardship of Matrikon.

Today the right leadership team is in place, with the focus, discipline and commitment to execute the strategy and continue to build Matrikon well beyond the company that I envisioned when I founded Matrikon in 1988. I have confidence in the ability and dedication of the leadership team, and I am personally excited about what the future holds for Matrikon. Therefore, I will continue to retain my significant shareholding in the company.

Sincerely,

Nizar J. Somji
Chairman

BOARD BIOGRAPHIES

Matrikon's experienced board members possess diverse skill sets, bringing unique perspectives and a variety of relevant experiences to board room discussions. The board emphasizes integrity and good business ethics as the backbone of solid corporate governance practices.



HUGH J. BOLTON, FCA

Recent Experience:

Mr. Bolton retired as Chairman and CEO of Coopers & Lybrand Canada in 1998 after a 40-year career with Coopers & Lybrand (now PricewaterhouseCoopers) and predecessor firms.

Other Directorships:

EPCOR Utilities Inc. (Chairman), EPCOR Preferred Equity Inc. (Chairman), Teck Cominco Limited, The Toronto Dominion Bank, The Canadian National Railway Company, WestJet Airlines Ltd., Alberta Shock Trauma Air Rescue Society.



E. KENT JESPERSEN

Recent Experience:

Mr. Jespersen is the Chairman and Chief Executive Officer of LaSalle Resources Ltd., Ltd., and has held senior executive positions with several energy resource companies, including serving as President at NOVA Gas International and Foothills Pipe Lines and as Senior Vice President at Husky Oil.

Other Directorships:

Axiu Networks, CCR Technologies Inc. (Chairman), North American Oil Sands Ltd., TransAlta Corporation.



DAVID KRAMER, CPA

Recent Experience:

Mr. Kramer is an independent financial analyst with extensive experience researching software and technology companies.

Other Directorships:

Municipal Solutions Group.



ROBERT MOORE, MBA

Recent Experience:

Dr. Moore is Chairman and CEO of Vigilistics, Inc., an early-stage company that provides real-time operations intelligence systems for dairy and food processing. Previously, he was a Founder and President of Gensym Corporation, a public company in Massachusetts.

Other Directorships:

Vigilistics, Inc. (Chairman), Bluebeam Software Inc., Digital Performance Inc.



MICHAEL A. PERCY, PhD

Recent Experience:

Dr. Percy is the Dean of the School of Business at the University of Alberta and has been with the university since 1979. Dr. Percy is an active researcher and commentator on a variety of public policy issues.

Other Directorships:

EPCOR Utilities Inc., Timber Investments Ltd., Alberta Life Sciences Institute.



GREG RAWLIN

Recent Experience:

Mr. Rawlin is the President and CEO of Matrikon Inc. He has served Matrikon in a variety of senior executive positions for the past 11 years. Mr. Rawlin's vision and leadership have been instrumental in Matrikon's evolution.

Other Directorships:

St. Joseph's College Board of Governors.



JANET C. REIMLE, FCA

Recent Experience:

Mrs. Reimle is an independent director and business adviser. She has held senior management positions with a number of companies, including, most recently, EPCOR Utilities Inc., and was Principal of Reimle & Associates which operated a number of business interests.

Other Directorships:

Canadian Hotel Income Properties, Graystone Capital Management Ltd., NOVA Chemicals, Nelkem Corporation, West Fraser Timber Co. Ltd.



STUART J. SOMIL, MBA, M.ENG. (AIAA/ASME)

Recent Experience:

Mr. Somil is the President of Jaffer Inc., a consulting company offering a broad range of services for small business owners as well as assistance with mergers and acquisitions. Mr. Somil is the founder and former President and CEO of Matrikon Inc.

Other Directorships:

Optima Geomatics Inc., CARE Canada.

CORPORATE GOVERNANCE

Our commitment to strong and effective corporate governance practices is a natural complement to our dedication to building Matrikon to last. We believe sound corporate governance makes good business sense and effectively serves our shareholder's interests while enhancing sustainable shareholder value.

As governance practices continue to evolve, we periodically review, evaluate and enhance our governance program. Some of the highlights of our program are described below.

Independence: The majority of our directors are independent, with all committees composed entirely of independent directors. The independent directors meet without management present during most in person board and committee meetings. Following Nizar Somji's retirement as President & CEO and appointment to Chair of the board, Hugh Bolton was appointed as independent Lead Director.

Disclosure committee: In fiscal year 2006, we reviewed our disclosure policy. As a result, our disclosure policy was modified based on best practices. A disclosure committee was established to bring increased rigor to our review of public documents and disclosure issues.

Restricted Share Units (RSUs): In fiscal year 2005, we discontinued stock option grants to directors and employees. In 2006, stock options grants were replaced with RSUs, which are convertible to Deferred Share Units (DSUs) or common shares upon their maturation.

Alignment of director and shareholder interests:

All board members are required to hold a minimum of three times their annual director retainer in shares. All board members meet this requirement; and, as of November 1, 2006, the average holding of independent directors was 18 times their annual retainer.

Continual evaluation: An annual evaluation is conducted to determine whether the board and its committees are functioning effectively and to consider recommendations to improve board effectiveness.

Strategic plan review and approval: To ensure that the board is fully informed of the strategic issues and critical risks facing Matrikon, the board has one meeting each year devoted to the review and approval of Matrikon's strategic plan.

Additional information about our commitment to corporate governance practices, including board member biographies and compliance with current corporate governance practices are detailed in our 2006 Information Circular as well as on our website at www.matrikon.com/investors.

	Hugh Bolton	Kent Jespersen	David Kramer	Robert Moore	Michael Percy	Amin Rawji	Janice Rennie	Nizar J. Somji
	Lead Director							Chairman
Director since	March 2001	March 2001	January 2004	March 2001	March 2001	December 2005	January 2003	March 2001
Board Committees	Compensation & Governance	Compensation & Governance (Chair)	Audit	Audit	Compensation & Governance	-	Audit (Chair)	-
Independent	✓	✓	✓	✓	✓	✗	✓	✗
2006 Director Compensation	\$44,564	\$30,625	\$25,000	\$25,000	\$25,000	-	\$31,667	\$38,237
Common Shareholdings	67,923	72,058	145,000	113,303	23,700	834,314	20,571	10,602,786
2006 Meeting Attendance	100%	100%	100%	100%	75%	100%	100%	100%

MANAGEMENT'S DISCUSSION & ANALYSIS

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November 10, 2006

The following discussion of Matrikon's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes for the year-ended August 31, 2006, which have been prepared according to Canadian Generally Accepted Accounting Principles (GAAP).

The Board of Directors, on the recommendation of the Audit Committee, approved the content of this MD&A on November 10, 2006.

All dollar amounts included in the MD&A are Canadian dollars unless otherwise specified.

Non-GAAP Measures

In this annual report, we refer to terms that are not specifically defined in the CICA Handbook and do not have any standardized meaning prescribed by GAAP. These non-GAAP measures may not be comparable to similar measures presented by other companies. Matrikon refers to and uses several non-GAAP terms, as defined below, throughout this analysis.

Net margin is our net income divided by total revenue and is expressed as a percentage.

Gross margin is our total revenue minus the cost of sales, divided by the total revenue and is expressed as a percentage.

Utilization or utilization rate measures the billable time for each employee against the total available time, based on a standard 260 work days per year and is expressed as a percentage.

Average daily rate is consulting revenue divided by billable people multiplied by utilization rate divided by days available in the period.

Additional Information

Additional information on Matrikon, including our annual information form, information circular and quarterly reports are available on SEDAR at www.sedar.com and in the investor relations section of our website at www.matrikon.com/investors.

Forward-Looking Statements

In order to provide our investors with an understanding of our current results and future prospects, our communications often include written or oral forward-looking statements. This annual report, including the MD&A, and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements are made pursuant to the "safe harbor" provisions of applicable Canadian securities legislation. These statements represent Matrikon's intentions, plans, expectations and beliefs and are based on our experience and our assessment of historical and future trends and the application of key assumptions relating to future events and circumstances. These statements may include, but are not limited to, comments about our objectives and priorities for 2007 and beyond, strategies and targets, expectations for our financial condition, and the outlook for our operations and external factors that may impact results, including global economies and industry trends.

Forward-looking statements require assumptions and involve risks and uncertainties related to our business and the general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, conclusions or projections we make will not prove to be accurate and that our actual results to be materially different from the targets, expectations, estimates or intentions expressed in the forward-looking statements. We caution readers of this Annual Report not to place undue reliance on our forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic

conditions in the countries in which we operate; currency fluctuations; market demand for our products and services; our ability to execute projects and deliver solutions; our ability to execute our strategic plans and to complete and integrate acquisitions; the degree of competition in the geographic and business areas in which we operate; our ability to attract and retain qualified employees and contain payroll costs; our ability to contain expenses; technological changes and research and development; the length of the sales cycle required to closer larger solution contracts; availability of financial resources to carry out our strategy; our ability to protect our intellectual and intangible properties; legal claims; critical accounting estimates; the possible effects on our business of war or terrorist activities; disease or illness that affects local, national or international economies; and disruptions to public infrastructure, such as transportation, communications, power or water supply. We caution that this list is not exhaustive of all possible factors.

Other factors could adversely affect our results. For more information, please see the discussion on the principal risks that could affect our results, beginning on page 42 of this management's discussion and analysis.

When relying on forward-looking statements to make decisions with respect to Matrikon, investors should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Unless required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the company or on its behalf.

Company Overview

Founded in 1988, Matrikon is a growing international provider of integrated industrial intelligence solutions that enable our industrial customers to improve operating efficiency. Solutions include data acquisition and storage, data analysis for plant optimization, decision support systems, data connectivity and web delivered data presentation for improved collaboration. Matrikon is one of the largest industrial solution integrators in North America with a client base diversified across a number of industries, including oil and gas, power, pulp and paper, refining and petrochemicals and mining and mineral processing.

Matrikon is listed on the Toronto Stock Exchange under the trading symbol "MTK". As at October 31, 2006 there were 31,058,330 common shares of the corporation issued and outstanding.

At August 31, 2006, Matrikon had 569 employees, including 79 in administrative services, 82 in sales and marketing, 94 in product development and support and 314 in professional services (integration and consulting). Local service and support are provided via offices throughout Canada (Vancouver, Calgary, Edmonton, Fort McMurray, Toronto, Quebec City), the United States (Houston, St. Louis, Cleveland), the Middle East (Bahrain), Australia (Newcastle, Brisbane, Melbourne, Gladstone and Perth), New Zealand (Hamilton), and Europe (Aberdeen, Scotland and Köln, Germany).

MANAGEMENT DISCUSSION & ANALYSIS

COMPANY OVERVIEW

Matrikon's current business model is a combination of software development and sales and consulting services. Four areas make up the company's sales today:

Software License	Extended Support	Consulting	Equipment
Sales of Matrikon's proprietary software	Maintenance and support on Matrikon's software as well as support contracts for various engineering services	Includes implementation of Matrikon technology; industry solution development and integration of third-party software and hardware	Equipment sales ancillary to some larger consulting engagements where clients request Matrikon to source equipment and third-party software

Our core capability is transforming plant data into actionable information to predict and prevent problems, identify opportunities to improve operations and plan and execute production more efficiently.

MATRIKON'S INTEGRATED INDUSTRIAL INTELLIGENCE (MI3) PLATFORM

MI3 provides an integrated operations environment by bringing the strengths of Matrikon's technologies together with a client's existing plant information systems to provide a customer-centric solution for:

- Real-time data access to all information systems, with MatrikonOPC™ Suite
- Turning data into actionable information with ProcessSuite's™ condition monitoring and decision support technologies
- Providing real-time collaboration and production performance management with Resolution™ Suite

The MI3 platform achieves this through a common web user interface, configurable business logic, meta data model and transparent application intercommunications to deliver a single version of the truth.

These solutions combine Matrikon's technology suites with the power of the MI3 platform to deliver solutions that address specific industry issues, from well optimization in oil and gas to volumetric inventory management in refining to asset performance and reliability in mining and pulp and paper.

Matrikon's comprehensive services deliver added value by providing customized solutions that meet an individual client's specific and unique needs, from single applications to site-wide and enterprise-wide solution integration. Matrikon's global service divisions are primarily focused on implementing Matrikon products and delivering solutions based on these products.

Our integration and consulting services deliver value by ensuring that the operating infrastructure is in place to achieve optimal performance, providing applications to meet specific needs through customized solutions, and integrating third-party software and hardware.

Product Suites

MatrikonOPC	ProcessSuite	Resolution Suite
Standard for universal connectivity	Analysis & decision support	Integrated Production Management
MatrikonOPC is the 'glue' of Matrikon's products and professional services, enabling communication between plant floor hardware, software and devices. These products are based on OPC, the industry standard for plant floor communication.	Includes solutions for web-based data presentation and collaboration (ProcessNet™), control loop asset optimization (ProcessDoctor™), condition-based monitoring and fault detection (ProcessMonitor™), advanced control technologies (ProcessACT™), on-line downtime reporting (ProcessMORE™) and alarm management (ProcessGuard™). These products are at a mature stage, are stable and feature rich, enabling current development to focus on high-end features that add significant value and extend the footprint of individual products.	Resolution delivers production management solutions within an integrated framework. This model provides solutions for operations management, product management, asset management, quality management, and performance management to improve business performance. These solutions are standards-compliant, scalable, configurable to specific needs, and allow incremental deployment.

VISION & STRATEGY

Matrikon's long-term strategy is to be the market leader in operations performance management solutions with our MI3 platform.

We believe that our innovative products and depth of expertise are well-suited to accomplishing this strategy. The size and scope of customer projects that use both Matrikon's proprietary products and our professional services continue to grow. In 2006, the average value of projects over \$100,000 was \$0.46 million, a 10% increase over the 2005 average of \$0.42 million.

In addition, we believe that the we have made significant progress in the transition from a systems integrator to a solutions provider as evidenced by the commercial success and continued development of our proprietary products emphasizing solutions for the total enterprise.

In 2006, 31 clients signed corporate or multi-site license agreements for specific Matrikon products or for entire product suites, compared to 22 in 2005, 13 in 2004 and eight in 2003.

Matrikon's long-term growth strategy is comprised of four fundamentals: geographic expansion, technological advancement and innovation, vertical industry expansion, and complementary professional services. These growth strategies are achieved through a combination of organic growth and strategic acquisitions and are discussed on the following pages.

Scorecard: stated targets to actual results

Please refer to pages 14-15 of the annual report for the scorecard detailing our progress against our 2006 objectives.

MANAGEMENT'S DISCUSSION & ANALYSIS

GROWTH STRATEGY PROGRESS

Geographic Expansion

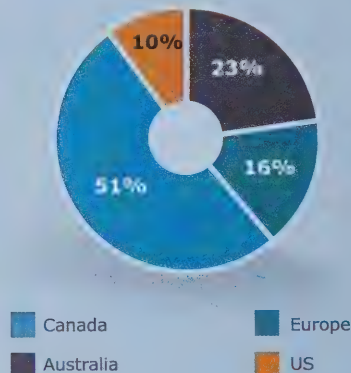
2006 Objectives:

- Expand international business
- Build international partner program

2006 Results

- Acquired distributor in Germany to expand European footprint
- International revenue increased to 49% of total revenue in 2006 from 39% in 2005
- Employee base in Europe grew by 104%; Australian employee base grew by 23%
- Refocused and formalized Partner Growth Program in January 2006. Four partners and 17 resellers are signed up under the program to date

Revenue by segment



Objectives

- Further growth in US, Europe and Asia

2

Technical Innovation

2006 Objectives:

- MI3 platform integration
- Ongoing product development to maintain leadership position

2006 Results

- MI3 platform visualization layer integrated
- New versions of all products continually in development – major new releases of all products occur every 12 to 18 months
- Industry solutions further developed: well optimization, paper break
- Matrikon's product advisory board meetings were held in May 2006. These sessions continue to involve clients in our product development cycle to ensure that the technology we are developing today is the technology that will meet our clients current and future needs
- Renewed Industrial Research Chair in Computer Process Control at University of Alberta for additional 5 years
- Continuation of additional research chairs:
 - NSERC-iCORE-Syncrude-Matrikon chair of intelligent sensing systems at the University of Alberta
 - BHP Billiton-Matrikon-Australia Research Center for complex dynamic systems and control at the University of Newcastle

Objectives

- Ongoing MI3 integration & product development
- Development of high value industry solutions based on MI3 platform

3 People Expertise

2006 Objectives:

- Continue development of expertise in asset management
- Build project management skill base and develop best practices

2006 Results

- Asset management expertise: 22 Maximo 5 Certified consultants (21 in 2005, 17 in 2004); 2 Maximo 6 Certified consultants
- Business Solutions group focused on condition-based and reliability-centered maintenance to leverage Matrikon products
- 12 module project management course (one module/month) completed by 42 staff in calendar 2005. An additional 24 project managers are currently enrolled
- Project management office continues to establish best practices

Objectives

- Continue to develop our consultants' expertise and capability to deliver higher value solutions based on Matrikon technology
- Establish relationships with high end consulting firms to leverage our capability to deliver MI3 solutions
- Build project management expertise in Europe and Australia

4 Vertical Market Expansion

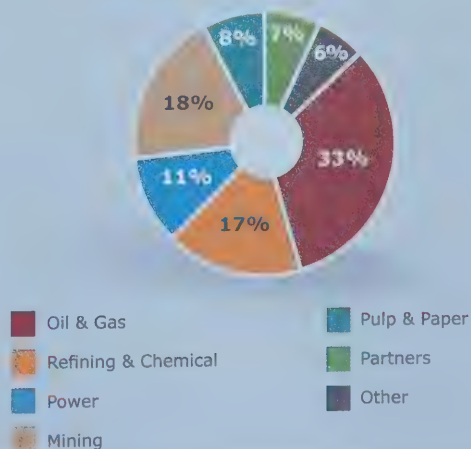
2006 Objectives:

- Build market share in five core industries: oil & gas, mining, refining & petrochemical, power, pulp & paper
- Continue development of industry solutions

2006 Results

- Industry message and positioning for pulp and paper has made significant progress and a dedicated pulp and paper account manager was hired late in fiscal 2006
- Growing opportunity pipeline for MI3 in new oil sands development
- Oil and gas has grown faster than any other industry, primarily as a result of the success of the well optimization solution

Sales by Industry



Objectives

- Continue to develop expertise in core industries
- Hire additional dedicated industry experts
- Continue to develop industry solutions such as volumetric accounting for oil and gas and oil sands

MANAGEMENT'S DISCUSSION & ANALYSIS

KEY PERFORMANCE DRIVERS

Several key performance drivers affect our ability to deliver value to our clients and therefore achieve our strategic vision and build long term value for our shareholders. These critical factors include our ability to:

- attract and retain a highly skilled workforce,
- develop innovative products and continually increase their market share,
- successfully execute larger projects and win repeat business with long-term partners,
- operate efficiently and sustain growth, and
- generate the financial resources required to achieve our objectives.

An exceptional team

Our people fuel our success by developing innovative technology, delivering value to our clients through integration and consulting services, supporting our customer base and developing long-term relationships with our clients.

Matrikon recognizes that our ability to attract and retain quality people is fundamental to our success. Therefore, we emphasize the development of a sustainable corporate culture that values performance, leadership and innovation and provides exceptional opportunities for growth and career development. Matrikon was named one of the Top 100 Employers in Canada in 2006.

Employee base growth and employee survey results are the primary performance measures used with respect to our workforce. Our team increased by 10% to 569 staff at August 31, 2006 from 517 on the same date in 2005.

An employee survey conducted in June 2006 achieved a 78% response rate. In the survey, 89% of respondents indicated that they are proud to work at Matrikon and 85% feel motivated to help Matrikon achieve its goals. Some priority improvement areas were identified as a result of the survey, including ensuring competitive compensation and addressing work-life balance and long-term career planning. Action plans to address company wide and functional group priority issues are under development.

While turnover at the senior management level had been historically low, we had increased turnover at this level in 2006, beginning with the retirement of founder Nizar J. Somji. Given our dedication to developing leadership skills in our employee base and our philosophy of promoting from within, this turnover did not have any significant impact on our business as other senior managers were available and capable of stepping up.

A critical factor for continued growth is our ability to develop future leaders to enable international

expansion while ensuring that our culture and values are maintained. To this end, Matrikon introduced and developed two new employee programs in 2005 to develop tomorrow's leaders.

The focus of the first is the development of a formal technical career advancement plan to provide improved career opportunities and job satisfaction for those employees who prefer to fulfill technical roles. The second aspect is the formalization of our employee development strategy covering training in three critical areas: project management, technology and leadership. In fiscal 2006, we held our first CEO summit, a program aimed at identifying and developing high potential leaders.

In addition, we identified several key strategies to improve employee retention and have been implementing these programs throughout the year, including reviewing salaries to ensure they are locally competitive, granting restricted share units to key contributors, active culture building and socialization activities, and training and career development.

Innovative technology

Our successful transition to a solutions company requires that we continue to develop innovative technology. Our commitment to innovation is achieved through continual research and development, award-winning collaboration with leading educational centers and collaboration with our clients to ensure that our products meet their current and future needs.

Matrikon's product development is enhanced by our partnership with educational institutions. Through Matrikon sponsored research chairs, we collaborate with industrial clients and graduate students to commercialize leading edge technology. Matrikon has established three Industrial Research Chairs:

- The NSERC-Matrikon-Suncor-Industrial Research Chair in Computer Process Control at the University of Alberta.
- The NSERC-iCORE-Syncrude-Matrikon Industrial Research Chair in Intelligent Sensing Systems at the University of Alberta
- The BHP Billiton-Matrikon Australian Research Center for Complex Dynamic Systems and Control at the University of Newcastle

These research chairs are each a unique partnership between industry and academic research, with Matrikon acting as a bridge between the two to ensure that the resulting technology can be rapidly commercialized.

To further ensure that our product development addresses the technology priorities of our clients, Matrikon has established industry advisory boards for each core industry and product advisory boards for

each product suite. These boards are comprised of clients with whom we have a long-term relationship and meet at least annually to discuss industry trends and issues or review product direction and discuss priority features and functionality, respectively. Through these advisory boards, our key clients have a significant say in our technology development and areas of focus. By involving clients in the process, we are ensuring that the technology we are developing today is the technology that will answer our clients' most pressing needs tomorrow.

The primary measure of our success in technological innovation is the number of new product introductions and upgrades to existing products over the course of the year. In 2006, we released new versions of all products in the ProcessSuite family and developed our MI3 platform. In 2007, our priorities include developing and deploying industry solutions within MI3 and further back-end integration of our other product suites with the MI3 platform.

ProcessGuard, our alarm management solution, received a Readers' Choice Award from Control magazine readers in January 2006.

Sales and marketing

Over the past four years, we have made a considerable investment in sales and marketing infrastructure to drive Matrikon's transition to a solution integrator and to expand the use and adoption of our proprietary products. This investment has been and is continuing to drive our growth and ability to capitalize on the significant potential that exists for our solutions.

Sales and marketing strategies employed focus on further developing customer relationships. This is accomplished through a variety of initiatives, including delivering information in the way clients prefer, positioning Matrikon as a leader in various market segments, and enhancing the "Matrikon experience" for customers through programs such as the Matrikon Valued Partners (MVP) users conference.

Our third annual MVP users conference was held in May 2006 with attendees representing over 90 different companies and 15 countries. We also held our first MVP outside North America in 2006. MVP Australia attendees represented close to 40 companies and a variety of industries. We also held two MatrikonOPC users conferences in 2006, one in the United States and one in Köln, Germany.

The strategic account management focus of the sales organization has resulted in 102 large scale projects (over \$100,000) in 2006 from with an average value of \$464,000, compared to 112 projects with an average value of \$422,000 in 2005. Fourteen projects in 2006 were valued at over \$1.00 million, up from eight in

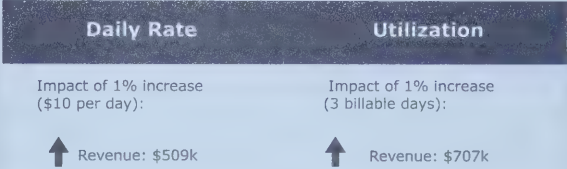
2005. In addition, the number of new corporate license agreements (where a client purchases a product for site-wide or enterprise-wide usage) increased from 22 in fiscal year 2005 to 31 in 2006.

Project execution

In order to enhance shareholder value, we must operate efficiently and thus we continually seek out ways to improve our efficiency.

The two measures used to determine operating efficiency are gross margin and average daily rate. In 2006, our gross margin improved to 55% from 54% in 2005 and our average daily rate increased by 11% over 2005.

Consulting and implementation fees make up the majority of our revenue. The levers that drive profitability in the consulting business are estimated as follows, based on an annual, company wide increase.



Recent changes and improvements to project management processes are helping to ensure that projects remain on time and on budget while improving profit margins and average daily rate. The improvements include:

- Formal project management training that prepares managers to sit for the Project Management Professional designation exam. To date, 42 project managers have completed the program and an additional 24 are currently enrolled in the year long program
- The establishment of the project management office (PMO) to develop project management best practices
- Regular 'check-ups' to ensure that projects are on track. All projects are audited by the PMO at several intervals throughout the project
- Regular training on Matrikon technology for services staff to ensure that installations and implementations can be completed efficiently
- Regular monitoring of project financial metrics, including budgeted time and expenses vs. actual incurred to date and project profit margins

MANAGEMENT'S DISCUSSION & ANALYSIS

KEY PERFORMANCE DRIVERS

Operating efficiency

We are currently in the process of identifying an appropriate enterprise resource planning (ERP) system to meet Matrikon's specific needs. The goals of the ERP project are to:

- Increase efficiency through improved business visibility,
- Enable more agile response to business changes,
- Improve financial and business reporting,
- Better integrate sales, legal and accounting, and
- Improve monitoring of project financial metrics.

Implementation of this project is expected to begin in the third or fourth quarter of fiscal year 2007.

Sustained growth

Since 2001, Matrikon has enjoyed a compound annual growth rate of 22% for revenue and 30% for net income.

Matrikon's overall growth strategy focuses on four fundamental aspects of growth: geographic, industry, technical innovation, and services expertise. These are discussed on pages 26-27.

In addition to organic growth, Matrikon uses acquisitions and alliances to supplement growth strategies.

Over the past five years, Matrikon has completed six acquisitions:

- Reverse takeover of TigrSoft (April 2001)
- Acquisition of Hunter Control (September 2002)
- Acquisition of the assets of Comcept (November 2003)
- Acquisition of PI Automation (May 2004)
- Acquisition of the assets of Resolution Integration Solutions (April 2005)
- Acquisition of Matrikon Deutschland (September 2005)

We continually review acquisition opportunities that could fast track our growth and market share objectives or supplement our total solution capability. In addition to requiring synergies in at least one of our four strategic growth areas, potential acquisitions must have an attractive price tag. The most desirable acquisitions are those that would serve to:

- Supplement geographic expansion in key areas
- Supplement our solutions through technology
- Supplement our industry expertise through consulting capability
- Build product distribution channels.

Financial resources

Matrikon's philosophy with respect to managing finances has always been to build Matrikon to last: always remain profitable and free of long-term debt through systematic, conservative growth. Our growth to date has been primarily funded by internal cash flow, supplemented by a line of credit and private placements of equity.

Approximately half of our large engagements are fixed price, which presents greater risk to Matrikon, but also the opportunity for greater profit margins. Major project bids go through an internal approval process to ensure that risks can be minimized and profit margins maintained. Our project management improvement efforts have resulted in improved reporting of project performance measures. Projects continue to be monitored closely, with project management office audits at set intervals throughout the life of a project.

Our financial condition is stable, with cash flow positive operations, no debt and an unused line of credit. Management believes that we have the capital resources and liquidity necessary to meet our commitments, support our operations and finance our current growth strategies.

Competitive Market & External Environment

Matrikon is engaged in multiple business areas in various markets around the world. Competition varies for each business segment, product segment and geographic region.

As we develop and execute on our MI3 strategy, we see the following trends in the competitive landscape:

- As we implement solutions based on MI3, our competitive field is reduced to a handful of companies who have the depth of technology, industry expertise and consulting capability to offer similar solutions.
- Our solution becomes more complementary to the offering of large ERP vendors.

Broadly, Matrikon's competition today consists of small product companies which have products that may compete with one or two Matrikon products; a few mid-size companies with similar products, solutions and consulting capability; and the industrial automation divisions of a several global process control companies (Honeywell, Invensys, Emerson).

In January 2006, Matrikon placed #40 on the Control magazine list of Top 50 control technology suppliers in North America, the fourth year we have been included on the list. Matrikon’s strategy has been focused on global expansion, which has impacted our ranking on this list in spite of our strong growth (the listing only includes North American revenues).

An important differentiator between Matrikon and other companies on the Control Top 50 list is that the majority are process automation hardware manufacturers (37 of the 50). Only four companies are pure software/services companies and nine others offer both hardware and software/services.

Our primary competitive advantage is the inter-relationship of the professional services and the depth of our product offering that combine to deliver industry-specific enterprise solutions. Unlike most hardware vendors, our products and solutions are vendor neutral – they are effective no matter what system a customer has in place.

Our technology is proven and is based on years of research and development and direct industry input into our product development cycles through our industry and product advisory boards. Our technology is complemented by our expertise in a variety of areas:

- Connectivity expertise to connect to and communicate with a multitude of hardware and software systems
- Data cleaning expertise to address issues that arise when data is missing or incorrect and reduce false positives
- Domain expertise to apply the right algorithm to the right problem
- Web-based visualization to integrate information and drive real-time decision making.

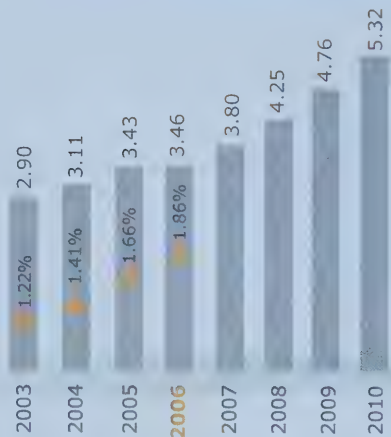
The following chart represents the total market for Matrikon software and services worldwide based on ARC Advisory Group data for the Collaborative Production Management, Plant Asset Management, and Real-Time Process Optimization sectors that our solutions address.

Based on fiscal year 2006 revenue, Matrikon’s current market share is 1.9% and our market share has been growing faster than the overall market.

ARC cites a number of dynamics as shaping the global market in these key segments:

- Increasing global competition places incredible pressure on facilities to improve Return on Assets
- The trend towards aligning plant operations with business objectives

Matrikon Solutions Worldwide Market Size



SOURCE: ARC

- Total Market Size (US Billions)
- Matrikon Market Share

- Increasing focus on reducing process variability, improving product quality, and pushing constraints to limits as a result of resource market strength
- Advances in technology, enabling faster, less costly implementation and reducing the risk associated with these solutions

Additional factors impacting Matrikon’s primary markets include:

- Increased demand for energy is driving production in coal plants, natural gas facilities, and power plants and is forcing upgrades and modernization of existing facilities to add capacity
- Strong oil prices increase the pace of new well development and the development of new extraction techniques such as steam assisted gravity drainage (SAG-D) in the oil sands
- Lack of refining capacity in the US increases the probability of new construction

We continue to see strong growth opportunities around the globe. Strong potential remains in Europe, the US, Canada and Australia. We are beginning to gain traction in the Middle East, with several multi-million dollar projects closed in 2006.

With respect to Matrikon’s core vertical industries, the oil and gas sector remains very strong and has experienced the greatest growth in 2006. The well optimization solution continues to gain traction and has generated over \$12M in revenue to date. This is comprised of primarily consulting revenue. As the solution has

MANAGEMENT'S DISCUSSION & ANALYSIS

RESULTS OF OPERATIONS

matured significantly, we expect the revenue mix for well optimization solutions to have a greater proportion of license revenue going forward.

Refining and petrochemicals and pulp and paper are also expected to show strong growth in 2007. A dedicated pulp and paper sales person was recently hired, along with dedicated power sales people to drive revenue growth in these industries.

Matrikon's value proposition to clients is in our ability to provide solutions that improve productivity, plant availability and profitability, drive return on assets, and improve plant safety and compliance.

These directly respond to the client's most pressing issues: aging workforce, aging infrastructure (a recent ARC study estimates that nearly \$65 billion worth of installed systems are reaching the end of their useful lives), regulatory compliance, global competition, and increasingly complex production processes.

Selected Annual Information

Year Ended (CAN \$000s)	2006	% of Revenue	2005	% of Revenue	2004 Restated	06 vs. 05 % Change
Total Revenue	73,821	100%	67,813	100%	54,396	9%
Consulting fees	48,770	66%	45,990	68%	34,556	6%
Equipment sales	5,802	8%	5,751	8%	5,508	1%
Total Services & Related	54,572	74%	51,741	76%	40,064	5%
Software license fees	13,247	18%	10,454	15%	9,804	27%
Extended Support	6,002	8%	5,618	8%	4,528	7%
Total product & Related	19,249	26%	16,072	24%	14,332	20%
Net income	5,132	7%	5,232	8%	2,037	(2%)
Earnings per share-basic	0.17	0%	0.18	0%	0.07	(3%)
Earnings per share-diluted	0.16	0%	0.17	0%	0.07	(6%)
Total assets	64,474		55,507		43,044	16%
Total long-term liabilities	311		518		422	(40%)
Weighted average shares outstanding	31,020		29,842		28,279	4%

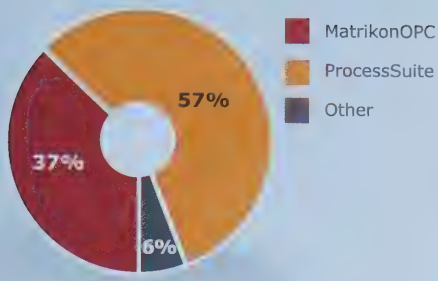
Growth in consulting fees in fiscal year 2006 is a result of our focus on delivering solutions based on our technology and the general shift in our consulting business from basic control integration to higher value solutions, which has resulted in improved daily rates.

In 2006, we earned \$1.81 in implementation revenue (consulting and integration related to our products) for every \$1.00 in software license revenue. This is in line with our expectation for the year and is an improvement over 2005, when we earned \$1.62 in implementation revenue for every \$1.00 in software revenue.

Software license growth of 27% over 2005 was a result of several factors:

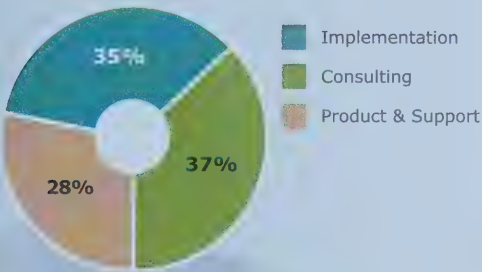
- Strong growth in ProcessSuite product sales, which grew by 33% over 2005. This is a result of increasing traction with ProcessNet, ProcessDoctor and ProcessGuard as industry adoption of the underlying technology increases.
- Early success of MI3 solutions, with two client wins in fiscal 2006, and the addition of other Resolution product sales for the full year following the acquisition of the assets of Resolution Integration Solutions, Inc. (RIS) in April 2005.

Product Revenue by Suite



Extended support revenue continued to grow in 2006 and has demonstrated steady growth over the past three years as a result of growing software license revenue.

Revenue by Type



Revenue by type (shown in the previous chart) excludes equipment sales as they are ancillary to consulting engagements and fluctuate period by period.

Gross Margin by Revenue Type

Year Ended August 31	2006	2005	2004
Consulting revenue	43%	44%	35%
Software revenue	100%	100%	100%
Equipment revenue	27%	14%	28%
Support revenue	88%	89%	87%

Gross margin remained strong throughout fiscal year 2006 and was at the mid point of our target range of 54% to 56% for the year. This continued improvement over prior years is a result of several factors:

- Our focus on delivering higher value solutions, and on improving project management efficiency and effectiveness, which has resulted in an increase in average daily rate of 11% over 2005 and 30% over 2004. This improvement was offset by lower than expected utilization rates (72% in 2006 compared to 73% in 2005) as a result of increased staff turnover. New consultants typically take one to three months to become fully trained and utilized.

- Our focus on shifting third-party consulting to higher value solutions based on Matrikon technology, which has resulted in improved gross margin on equipment sales.

We expect the quarterly gross margin range for 2007 to be 54% to 56% as we continue to focus on solutions that deliver significant value to our industrial clients, both those based on our own technology and consulting related to third-party technology.

Items of Note in 2006

We continue to make progress in our transition to a solutions company and are increasingly engaging in strategic consulting and solution-based projects. Our focus on improving operational efficiencies and business processes to drive profitability over the past two years have been validated by our results over the course of the year. These include improvements in key performance indicators such as gross margin and average daily rate in spite of the strength of the Canadian dollar and the strength of the global economy, which has resulted in increased pressure on salaries and increased staff turnover.

We are cash flow positive, with \$7.41 million in cash from operations for fiscal 2006 compared to \$6.36 million in 2005. Management expects cash from operations to grow in fiscal year 2007, further strengthening our cash position and enabling us to capitalize on strategic growth opportunities.

Canadian Dollar Appreciation

We operate internationally, with 76% of our business conducted in foreign currencies, predominantly US and Australian dollars and British pounds. Accordingly, our results are affected by the year-over-year exchange rate fluctuations of these currencies relative to the Canadian dollar (See Billing by Currency table, page 34). Foreign currency fluctuations continued to impact our results in 2006 as the Canadian dollar strengthened against all other currencies from which we derive revenue. As a result, we recorded a foreign currency translation loss of \$0.89 million in 2006 (after tax impact of \$0.02 per share) compared to a loss of \$1.48 million (after tax impact of \$0.03 per share) in 2005.

The realized portion of foreign currency translation was a loss of \$0.27 million in 2006 compared to a realized foreign currency translation loss of \$0.89 million in 2005. Assets and liabilities stated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of each period, which also impacts our foreign currency translation gains or losses.

In addition to the actual foreign currency translation gains or losses that are shown on our financial statements, foreign currency fluctuations have a significant impact on our revenue. Revenue was reduced by an estimated \$2.00 million as a result of actual exchange rates for fiscal 2006 compared to our budgeted exchange rates.

MANAGEMENT'S DISCUSSION & ANALYSIS

RESULTS OF OPERATIONS

% Billings by Currency

	31-Aug-06	31-Aug-05	Change
Australian Dollar	21%	19%	2%
British Pound	17%	16%	1%
Canadian Dollar	24%	27%	(3%)
Euro	5%	2%	3%
United States Dollar	32%	35%	(3%)
Other Currencies	1%	1%	0%

Exchange Rate

	31-Aug-06	2006 Average	31-Aug-05	Budget	Average vs. Budget
Australian Dollar	0.8463	0.8589	0.8917	0.9000	(0.0411)
British Pound	2.1074	2.0606	2.1291	2.1000	(0.0394)
Canadian Dollar	-	-	-	-	-
Euro	1.4222	1.4089	1.4569	1.6000	(0.1911)
United States Dollar	1.1084	1.1487	1.1917	1.1800	(0.0313)
Other Currencies	-	-	-	-	-

The majority of our expenses (approximately 65%) are in Canadian dollars, while the majority of our billings (76%) are in foreign currencies. As a result, we are required to convert currencies to Canadian dollars to cover expenses. We enter into forward contracts based on our projected cash conversion requirements to mitigate our exposure to currency fluctuations, particularly between the US and Canadian dollar.

Our continued global expansion functions as an offset to currency fluctuations by diversifying the currencies used and lessening our dependence on any one currency, however, in 2006 the Canadian dollar gained strength against all other currencies in which we conduct business.

Change in Utilization Calculation Method

Beginning in the first quarter of 2006, Matrikon changed the method used to calculate utilization rate. Utilization rates are now based on a standard 260 workdays per year with no allowance for statutory holidays or vacation

days taken. The utilization rates are now comparable between segments without accounting for different policies on vacation and statutory holidays between geographic regions. As a result, utilization rates for prior periods have been recalculated based on current presentation.

Acquisition of Matrikon Deutschland AG (MDAG)

On September 1, 2005, Matrikon acquired Matrikon Deutschland AG (MDAG). The results of MDAG are included in these financial statements within the Europe segment since the date of acquisition.

MDAG was previously a Matrikon product distributor and has a successful record of selling Matrikon technology in the German market since becoming an exclusive Matrikon distributor in July 2004. MDAG contributed \$2.10 million in revenue and \$0.99 million in income before taxes in fiscal year 2006.

Operating Expenses

Year Ended (CAN \$000s)	31-Aug-06	31-Aug-05	% Change	Employees at 31-Aug-06	31-Aug-05	% Change
Consulting G&A % of revenue	9,148 12%	8,030 12%	14%	17	18	(6%)
Sales & marketing % of revenue	9,270 13%	8,098 12%	14%	82	70	17%
Research & development % of product revenue	3,809 29%	3,388 32%	12%	75	67	12%
General & administrative % of revenue	7,865 11%	5,854 9%	34%	79	65	22%
Amortization % of revenue	1,543 2%	1,726 3%	(11%)	-	-	-

Combined operating expenses were \$31.64 million (43% of revenue) for fiscal year 2006 compared to \$27.10 million (40% of revenue) in fiscal year 2005.

Consulting general and administrative (consulting G&A) expense represents the non-billable portion of project expenses, including all related infrastructure costs. Fiscal year consulting G&A expense increased by \$1.12 million over 2005 as a result of increased travel, education and

employee relocation expenses and increases in salaries and bonuses.

Sales and marketing expenses increased by \$1.17 million compared to 2005. This increase is consistent with management's expectations and reflects continued investment in sales and marketing to assist us in achieving our objectives of accelerating customer adoption rates and growing revenue from Matrikon's

proprietary solutions. The primary factors in the increased sales and marketing expenditure are increased salaries and related expenses as a result of the 17% increase in staff and increased expenses for travel and sales and marketing activities.

Research and development expenses were 29% of product revenue in fiscal year 2006 compared to 32% of product revenue in fiscal 2005. Increases in R&D spending are a result of increased staff, offset by an increase of \$0.10 million in the Scientific Research and Experimental Development (SR&ED) tax credit in 2006. Matrikon controls R&D expenses through an efficient development process and partnership with leading research institutions.

General and administrative expenses increased by \$2.01 million or 34% over 2005 as a result of increased salaries; increased insurance and professional fees; and increased office rent and travel. Staff increased by 22% over 2005 and includes the reclassification of senior personnel to the corporate segment in October of 2005.

Net Margin

Net margin was 7% in 2006 compared to 8% in 2005. Net margin was positively impacted by improvements in average daily rate and increased product and support revenue. These improvements were offset by foreign currency translation losses and increased operating expenses. The effective tax rate was reduced to 31.4% in 2006 from 33.3% in 2005 as a result of increasing revenue from European operations, which are subject to a lower tax rate; the recent reduction in the statutory Alberta income tax rate; and the realization of certain future tax assets in Australia.

Segment Results

Matrikon has four strategic business segments: United States, Canada, Australia and Europe. The Corporate segment captures corporate expenses. Matrikon evaluates each segment's performance and reports segmented information according to this structure. Additional segment information is contained in Segments At a Glance, Pages 36-37

Canada: The Canadian segment includes the services business of and the product sold by the Canadian offices. Canada also includes the majority of research and development and other product related expenses. Canadian segment revenue in fiscal year 2006 was negatively impacted by foreign currency fluctuations. Although the majority of expenses in this segment are

Year Ended 31-Aug-06 (CAN \$000s)

	Canada	United States	Australia	Europe	Corporate	Total
Revenue	38,012	7,088	16,720	12,001	-	73,821
% of revenue	51%	10%	23%	16%	-	100%
Gross profit	21,563	4,194	6,951	7,822	-	40,530
Gross margin	57%	59%	42%	65%	-	55%
Expenses	(14,812)	(3,062)	(4,010)	(2,662)	(7,089)	(31,635)
Other income & foreign exchange gain (loss)	-	(2)	73	144	(1,632)	(1,417)
Income before taxes	6,751	1,130	3,014	5,304	(8,721)	7,478
Revenue change % (Q406 - Q405)	(8%)	40%	22%	55%	-	9%
Employees at 31-Aug-06	309	39	117	53	51	569
Utilization	67%	62%	82%	78%	-	72%

in Canadian dollars, much of the revenue is generated internationally and in particular in the United States. Average daily rate and utilization for this segment was impacted throughout the year as a result of the ongoing hiring of consulting staff and the transition of existing services staff from lower margin control and automation projects to higher margin consulting engagements. We are no longer taking on new control and automation projects in Canada and expect to have completed the majority of control and automation project backlog by the end of calendar year 2006.

United States: The US segment includes the services business of all US offices and the product sold by these offices. Revenue for this segment grew by 40% compared to fiscal 2005, primarily as a result of a significant increase in software license revenue. Gross margin, at 59%, was also improved as a result of this increase in higher margin software and related support revenue.

Australia: The Australian segment includes the services business of all Australian and New Zealand offices and the product sold by these offices. Australia's revenue grew by 22% in 2006 as a result of growth in both software license and consulting revenue. Gross margin also improved to 42% in 2006 from 38% in 2005 and average daily rate grew by 10%. Australia continues to make progress in securing longer term, higher margin consulting projects which incorporate Matrikon technology. They are focused on improving project management practices to improve gross and net margin.

MANAGEMENT'S DISCUSSION & ANALYSIS

SEGMENTS AT A GLANCE

Matrikon has four geographic business segments based on how we monitor and assess performance internally: Canada, United States, Australia and Europe. A fifth segment, Corporate, captures enterprise wide infrastructure and expenses. This includes shared corporate services (executive management, finance, information technology and human resources) that cannot be directly allocated to other segments. Corporate segment expenses increased in 2006 as a result of the reclassification of senior personnel and increases in professional fees, insurance premiums and office expenses. Corporate headcount was 51 people at August 31, 2006.

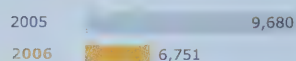
Canada

Includes the product and services revenue of all Canadian offices

Revenue (\$000s)



Income before Taxes and Corporate Costs (\$000s)



United States

Includes the product and services revenue of all US offices

Revenue (\$000s)



Income before Taxes and Corporate Costs (\$000s)



Australia

Includes the product and services revenue of all Australian offices

Revenue (\$000s)



Income before Taxes and Corporate Costs (\$000s)



Europe

Includes the product and services revenue of all European and Middle Eastern offices

Revenue (\$000s)



Income before Taxes and Corporate Costs (\$000s)



Our regional offices enable Matrikon to capitalize on the opportunity that exists in resource rich, industrialized areas, which represent the ideal market for our solutions. In addition, our global presence enables Matrikon to deliver global solutions to multinational companies while providing localized service and support. We continue to expand globally by extending our footprint in markets where we already have a presence, and through distribution partners in other geographic regions, including South America, Asia and Europe.

Strengths

- Establishing project management best practices
- Collectively, expertise in all core industries

Future Strategy

- Continue to increase daily rate
- Diversify individual office focus beyond single industry
- Focus on MI3 implementation and solution development
- Increase local work through dedicated sales focus

Other

- Employees: 309
- Utilization: 67%
- 2006 Revenue per employee: \$131,000

- Improved project management practices have resulted in improved efficiency and project execution
- Improved sales capacity with addition of senior sales personnel

- Focus on MI3 implementation and solution development
- Focus on product sales to drive consulting engagements
- Expand presence in regions with high levels of industrial activity

- Employees: 39
- Utilization: 62%
- 2006 Revenue per employee: \$275,000

- Increasing recognition in the Australian marketplace
- Well established in mining industry

- Diversify industries served, with focus on oil and gas and power
- Focus on increasing product sales
- Focus on specialized services to improve daily rates
- Focus on MI3 implementation and solution development for the mining sector

- Employees: 117
- Utilization: 82%
- 2006 Revenue per employee: \$157,000

- Significant capacity added in 2006 (doubled employee base)
- Well established in oil and gas industry

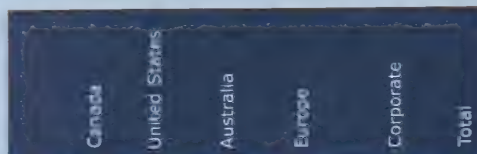
- Expand footprint in Europe
- Diversify industries served, with focus on power and pulp and paper
- Expand product sales beyond ProcessSuite
- Continue to capitalize on off-shore oil and downstream gas distribution network opportunities

- Employees: 53
- Utilization: 78%
- 2006 Revenue per employee: \$250,000

MANAGEMENT'S DISCUSSION & ANALYSIS

RESULTS OF OPERATIONS

Year Ended
31-Aug-05
(CAN \$000s)



Revenue	41,367	5,047	13,666	7,733	-	67,813
% of revenue	61%	7%	20%	11%	-	100%
Gross profit	23,941	2,662	5,133	4,983	-	36,719
Gross margin	58%	53%	38%	64%	-	54%
Expenses	(14,260)	(2,577)	(3,525)	(2,016)	(4,718)	(27,096)
Other income & foreign exchange gain (loss)	(1)	-	-	261	(2,040)	(1,780)
Income before taxes	9,680	85	1,608	3,228	(6,758)	7,843
Employees at 31-Aug-05	309	40	95	26	47	517
Utilization	67%	80%	84%	86%	-	73%

Europe: The European segment includes the services business of European (Aberdeen and Köln) and Middle East (Al-Hidd) offices and the product sold by these offices. Europe continues to achieve strong gross margin and average daily rate. This segment focuses almost exclusively on delivering high value solutions based on Matrikon's proprietary products, particularly in the oil and gas industry. The results of Matrikon Deutschland and our Middle East operations were not included in the European segment in the comparative period.

Corporate: The corporate segment includes all shared corporate services (including executive management, finance, information technology and human resources) that cannot be directly allocated to other segments. In addition to these corporate expenses, the corporate segment includes other income or expenses and amortization. The increase in expenses in the corporate segment is largely the result of the reclassification of senior personnel to the corporate segment in October 2005 and increases in professional fees, insurance premiums, corporate travel and office expenses.

Liquidity & Capital Resources

At August 31, 2006 accounts receivable were \$20.64 million compared to \$20.78 million at August 31, 2005 and \$18.09 million at May 31, 2006. The increase in accounts receivable from the end of the third quarter to the end of the fourth quarter (14%) is in line with revenue growth over the same period (12%) and with the decrease in contracts in progress of \$1.66 million due to the achievement of billing milestones in the quarter. The average collection period on trade receivables was 82 days in the fourth quarter, unchanged from August 31, 2005 and up by four days from the end of the third quarter. Matrikon's client base consists of Global 500 companies with strong credit ratings; therefore bad debt expense has been minimal.

Current liabilities increased from \$14.37 million at the end of the third quarter to \$16.20 million at the end of the fourth quarter. The major contributors to this change were an increase in accounts payable of \$0.93 million (primarily as a result of projects with a third-party equipment component in the fourth quarter); an increase in future taxes of \$0.50 million; and an increase in deferred revenue of \$0.62 million, which includes an increase of \$0.35 million in deferred support revenue over the third quarter.

At
(CAN \$000s)

31-Aug-06 31-May-06 31-Aug-05 Q4-06 vs. Q3-06 % Change 2006 vs. 2005 % Change

Cash & equivalents	18,316	16,664	10,546	10%	74%
Accounts receivable	20,640	18,087	20,782	14%	(1%)
Trade receivables	18,509	16,116	16,334	17%	15%
Average collection period (trade receivables)	82 days	78 days	82 days	4 days	-
Contracts in progress	5,308	6,964	3,557	(24%)	49%
Current liabilities	16,204	14,369	13,767	13%	18%
Cash flow from operations	7,405	(148)	6,361	nmf	16%

Cash provided by operating activities was \$7.41 million in fiscal year 2006 compared to \$6.36 million in 2005. Matrikon has a \$7.00 million operating line of credit at a variable interest rate of the bank's prime plus 25 basis points. We have not drawn on this line of credit in the past three years.

We had cash and equivalents of \$18.32 million at the end of the year compared to \$16.66 million at the end of the third quarter and \$10.55 million at the end of 2005.

Management believes that we have the capital resources and liquidity necessary to meet our commitments, support our operations and finance our current growth strategies.

The following table summarizes Matrikon’s contractual obligations:

Off Balance Sheet Arrangements

Matrikon is a lessee under several operating type leases for office space, office equipment and motor vehicles and is also a party to research funding arrangements with educational institutions in Canada and Australia. The future cash flow impacts of these agreements are disclosed in Note 12 to the financial statements. Matrikon is not party to any other undisclosed off Balance Sheet arrangements.

At 31-Aug-06	Payment Due				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
Operating lease obligations (CAN \$000s)	6,600	1,973	2,501	1,635	491
Foreign exchange forward contracts (US \$000s)	3,000	3,000	-	-	-

OUTLOOK

We remain committed to sustainable, long-term growth and the generation of shareholder value. As such, we will no longer provide guidance for revenue and earnings growth, but will instead focus on longer-term initiatives and key performance indicators that demonstrate progress against our strategy. These KPIs for 2007 include:

- Grow product revenue (license & support) by 15-20%
- Increase average daily rate by 8-10%
- Sell three to five MI3 solutions
- Complete acquisitions to complement growth strategy
- Increase average project value by 5-10%

- Grow distribution channels through Partner Growth Program
- Expand footprint in key geographies, including the United States, Europe and Asia
- Maintain focus on delivering value to customers
- Develop industry solutions based on MI3
- Continue MI3 integration and product development

Management believes that we are well-positioned to continue to grow and to capitalize on our market potential.

MANAGEMENT'S DISCUSSION & ANALYSIS

QUARTERLY RESULTS SUMMARY

The following table presents a summary of our unaudited consolidated operating results for the past eight quarters:

CAN \$000s except per share amounts	FY 05				FY 06			
	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006
Revenue	14,956	16,723	17,138	18,996	19,346	17,892	17,290	19,293
Gross profit	8,124	8,643	9,484	10,468	10,483	10,334	9,023	10,690
Gross margin	54%	52%	55%	55%	54%	58%	52%	55%
Operating income	2,162	2,415	2,155	2,891	3,007	2,644	977	2,267
Net income	204	2,353	1,557	1,118	1,479	1,229	931	1,493
Net margin	1%	14%	9%	6%	8%	7%	5%	8%
Shares outstanding (000s)	29,465	29,633	29,845	30,412	30,673	31,139	31,180	31,246
EPS - basic	0.01	0.08	0.05	0.04	0.05	0.04	0.03	0.05
EPS - diluted	0.01	0.08	0.05	0.03	0.05	0.04	0.03	0.04
Headcount	488	491	511	517	531	559	561	569

Seasonality

Seasonality in our business relates to consulting and software license revenue. Consulting revenue seasonality occurs in the second quarter, which has 10% fewer working days than other quarters. Aside from the second quarter, consulting revenue grew steadily throughout 2006. Software license revenue is often higher in the first and second quarters, which correspond to the calendar year-end and the end of the budget year for many clients. Software license fees remain lumpy as the timing of revenue recognition is often tied to consulting deliverables for larger solution sales. As we continue our transition to a total solutions provider, solution delivery (comprised of consulting and software revenue) may span multiple periods. We expect this to smooth out consulting and software revenue lumpiness over the long term, however short term lumpiness may remain as we transition.

Fourth Quarter Results

Highlights of our 2006 fourth quarter include:

- Record consulting revenue of \$12.99 million.
- The second highest revenue recorded for a quarter period (\$19.29 million compared to the record of \$19.35 million set in the first quarter of 2006).
- Strong license revenue of \$3.66 million (the second highest recorded for a quarter period, after \$4.21 million in the first quarter of 2006). This growth was led by strong ProcessSuite revenue as some industry solutions began wider scale roll-out.
- Gross margin of 55%, with 89% gross margin on support revenue, 44% on consulting revenue and 8% on equipment revenue.
- Deferred revenue of \$7.57 million, which includes \$3.67 million in deferred support revenue following strong product sales in the quarter. Support revenue is recognized equally over the life of the support contract.
- Overhead expenses were 44% of revenue compared to 47% in the third quarter of 2006 and 40% in the fourth quarter of fiscal 2005. The primary factor in increased overhead expense in 2006 has been increases in salaries and bonuses.
- Currency translation impact in the fourth quarter was significantly reduced (loss of \$0.03 million) as the British pound gained strength against the Canadian dollar.
- Net margin was 8% in the fourth quarter compared to 5% in the third quarter of 2006 and 6% in the fourth quarter of 2005.
- Matrikon adopted a stock compensation plan to grant restricted share units (RSUs) in fiscal year 2006. This plan replaces Matrikon's stock option plan. In the fourth quarter, 1.36 million RSUs were granted, resulting in a compensation expense of \$0.21 million year to date.
- We announced a normal course issuer bid on May 16, 2006 under which we are able to acquire up to 1,559,248 common shares (5% of the issued and outstanding as of May 1, 2006) by May 17, 2007. As of November 10, 2006, we have repurchased and cancelled 321,500 shares for a total of \$1.04 million. In the fourth quarter, we repurchased 268,700 shares for a total of \$0.87 million.
- Cash flow from operations was \$2.58 million in the fourth quarter compared to cash used in operations of \$0.15 million in the third quarter.

Critical Accounting Estimates

Our discussion and analysis of Matrikon's financial condition and the results of operations is based on our consolidated financial statements, which have been prepared in accordance with Canadian GAAP. Our preparation of the consolidated financial statements requires management to make estimates and assumptions that affect:

- the reported amounts of assets and liabilities
- the disclosure of contingent assets and liabilities at the date of the financial statements
- the reported amounts of revenues and expenses during the reporting period presented

These estimates and judgments are evaluated on an on-going basis and are considered to be reasonable based upon our historical experience and assumptions. Actual results could differ from those estimates made by management.

Matrikon's critical accounting estimates discussed below are those we believe are the most important in determining our financial position and results or those which require significant judgment by management. The corresponding accounting policies are summarized in the notes to our consolidated financial statements.

Revenue and Cost Recognition Estimates on Contracts

Matrikon's revenue is earned from four primary sources:

- Software license fees received from the sale of proprietary software and drivers
- Consulting fees related to developing solutions for our clients or installation services related to both Matrikon and third-party software
- Equipment sales of third-party products (hardware or software) that are ancillary to consulting engagements
- Extended support fees relating to post implementation support services.

Revenue from fixed fee contracts is recognized using the percentage of completion method based on the ratio of contract costs incurred to total estimated contract costs. Estimating total direct contract costs is subjective and requires the use of our best judgments based upon the information we have available at that point in time. Our estimate of total direct contract costs has a direct impact on the revenue we recognize. If our current estimates of total direct contract costs turn out to be higher or

lower than our previous estimates, we would have over or under-recognized revenue for the previous period. We also accrue for any estimated losses on incomplete contracts in the period when they become apparent. Changes in our estimates are reflected in the period in which they are made and would affect our revenue, cost of sales and contracts in progress balances.

Scientific Research & Experimental Development Tax Credits

Matrikon records tax credits offered for Scientific Research & Experimental Development (SR&ED) activities using the cost reduction method. Under this method, the tax savings are recorded as a reduction to R&D expenses. Management must estimate the costs incurred that will qualify for the tax credits based upon previous experience with filing claims for the tax credits and the review of accounting data. Changes to the estimated quantity of tax credits receivable from prior periods are recorded as Other income or Other expenses. A change in the estimated amount of qualifying expenditures for SR&ED tax credits may have a material impact on research and development expenses in the period it is identified or on Other income if the change in estimate occurs in a reporting period subsequent to when the expenditure was incurred.

Business Combinations, Intangible Assets & Goodwill

Matrikon accounts for intangible assets and goodwill in accordance with CICA Handbook Sections 1581, Business Combinations and 3062, Goodwill and Other Intangible Assets.

In a business combination, we may acquire the assets and assume certain liabilities of an acquired entity. The allocation of the purchase price for these transactions involves judgment in determining the fair values assigned to the tangible and intangible assets acquired and the liabilities assumed on the acquisition. The determination of these fair values involves a variety of assumptions, revenue growth rates, expected operating income, discount rates, and earning multiples. If our estimates or assumptions change prior to finalizing the purchase price allocation for a transaction, a revision to the purchase price allocation or the carrying value of the related assets and liabilities acquired may impact our net income in future periods. All purchase price allocations have been finalized.

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to Matrikon's reporting segments that are expected to benefit from the synergies of the business combination.

MANAGEMENT'S DISCUSSION & ANALYSIS

RISK RELATED TO OUR BUSINESS

At the date of the business combination, management must estimate the value of acquired intangible assets that do not have a well-defined market value, such as:

- the value of customer lists and relationships
- previously unrecorded intellectual property rights (e.g. internally developed software)
- non-competition agreements

Valuing these assets involves estimates of the future net benefit to Matrikon and the useful life of such benefits and is based upon various internal and external factors. A change in those estimates could cause a material change to the value of the intangible assets.

Although intangible assets are amortized over their useful life, if the estimated value of an intangible asset has declined below its amortized book value, a write-down would be recorded in the period when the event causing the decline in value occurred, which would increase amortization expense and decrease the intangible assets balance. At this time, Matrikon does not believe any of its intangible assets have a book value in excess of its fair market value.

Matrikon tests its goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. This process includes a comparison of the carrying value of the reporting unit to the estimated fair value to ensure that the fair value is greater than the carrying value. Fair values are arrived at using valuation methods such as discounted cash flow analysis, price-to-earning ratios, and other multiples. Management must exercise judgment and make assumptions in determining fair value, and different judgments and assumptions could affect the determination of fair value and any resulting impairment write-down. As at June 1, 2006, the estimated fair value of each of our reporting units was greater than the carrying value.

Income Tax Provisions

Matrikon uses the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of the assets and liabilities. These differences are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Through our acquisitions, Matrikon has obtained tax operating losses. In addition, the corporation has certain tax assets that may be used to reduce taxable income. Management's assessment as to the value of these tax operating losses is based on its best estimate of taxable income in future years. Judgments in the timing and potential use of such assets are made on the best information available and are reassessed periodically.

In light of historical operating results, we have recorded a future tax asset.

Changes in Accounting Policies

The following new handbook sections will be effective for annual and interim periods beginning on or after October 1, 2006 and would therefore be applicable to Matrikon's 2007 fiscal year. We have not yet determined the impact of these new standards on our consolidated financial position and results of operations.

CICA 3855 – Financial Instruments – Recognition and Measurement & CICA 3861 – Financial Instruments – Disclosure and Presentation.

These sections prescribe standards for the classification and disclosure of financial instruments and related interest, dividends, gains and losses. Specifically, they prescribe when a financial instrument is to be recognized on the balance sheet and at what amount, either fair-value or a cost-based measure. Financial instruments include accounts receivable and payable, loans, investments in debt, and equity securities, and derivative contracts.

CICA 1530 – Comprehensive Income & CICA 3251 – Equity

Section 1530 establishes standards for the reporting and display of comprehensive income. Comprehensive income is the change in equity of an enterprise during a period from transactions and other events, and circumstances from non-owner sources. Other comprehensive income comprises revenues, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income. Section 1530 does not address issues of recognition or measurement for comprehensive income and its components. Section 3251, "Equity" establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements set out in Section 3251 are in addition to those established in Section 1530 and require that an enterprise present separately the components of equity: retained earnings, accumulated other comprehensive income, the total for retained earnings, and accumulated other comprehensive income, contributed surplus, share capital and reserves.

Risks Related to Our Business

This document contains forward-looking statements, including statements regarding the future success of our business and technology strategies and future market opportunities. These statements are not guarantees of future results. These statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from what is implied by these forward-looking statements. These risks include risks related to revenue growth, operating results, the economic condition of the industries we serve, product development, and litigation as well as other factors described below and elsewhere in this report. Please note

that forward-looking statements represent management's estimates on the date they were made and undue reliance should not be placed on these statements. We disclaim any obligation to publicly update or revise any such statements to reflect changes in our expectations. We also disclaim any obligation to provide an update if changes to the events, conditions or circumstances on which these statements are based occur.

The following internal and external risks may affect Matrikon's operations. Management continually monitors and evaluates these risk factors and takes action to minimize them, however as many are outside of our control, it is impossible to completely mitigate these risks.

Market Demand for Products and Services

We have experienced growing revenue from our products in the past. However, we cannot be certain that product revenue will continue to grow or grow at the same pace as past results or at the rate projected by management.

There is no guarantee that our products will remain competitive, nor that they will respond to market demands, developments or new industry standards. If we are unable to identify a shift in market demand quickly enough, we may not be able to develop products to meet those new demands, or bring them to market in a timely manner.

This risk is mitigated through our ongoing commitment to research and development and to constantly improving the products based on industry feedback. Matrikon has established product and industry advisory boards where clients from a variety of industries meet with the company to discuss industry needs in the context of Matrikon's existing products and the clients' future needs.

In addition, Matrikon's service units continually provide insight into the business problems and trends occurring in a variety of industries. To date, Matrikon's products and enhancements have been developed through this insight and a continual feedback loop between industry, our engineers, consultants and product development teams.

State of the Economy

Operating results may vary significantly based on the impact of changes in global economic conditions on our customers.

While client needs change based on the economic climate, Matrikon's products and services are currently able to meet those needs.

In a robust economic environment, Matrikon's clients demand increased throughput and focus on optimization technology and expanding operations. During a recession, the focus shifts to improving efficiencies, reducing costs, and optimizing maintenance and operations. Matrikon solutions and technology address both. Matrikon's diversification in terms of geography,

industrial sectors, and technology also help to mitigate this risk.

Execution of Projects and Delivery of Solutions

A substantial portion of Matrikon's revenue is derived from service engagements, a number of which are undertaken on a fixed price basis (approximately 50% of projects). When making proposals for fixed priced engagements, we rely on estimates of costs and timing for completing the project. Profitability on these fixed price engagements may be impacted if initial estimates do not accurately reflect the cost of completing the engagement, by any unexpected costs or unanticipated delays or if the scope of the project is expanded without additional client funding. In addition, revenue related to fixed price projects is recognized based on the estimated percentage of work completed in relation to the total project. Any adjustments to these estimates may adversely affect quarterly results.

To reduce this risk, Matrikon has established a project management office (PMO) which applies project management best practices to all projects. The PMO regularly audits projects to ensure that they remain on track and as a mechanism to detect deviations from budget.

Through this process, each project is reviewed with the project team, which typically includes client representatives. In addition, as we continue to increase the proportion of engagements which are based on installing, implementing and customizing our own products and technology, this risk is further reduced through well-defined processes and methodologies.

Exchange Rates

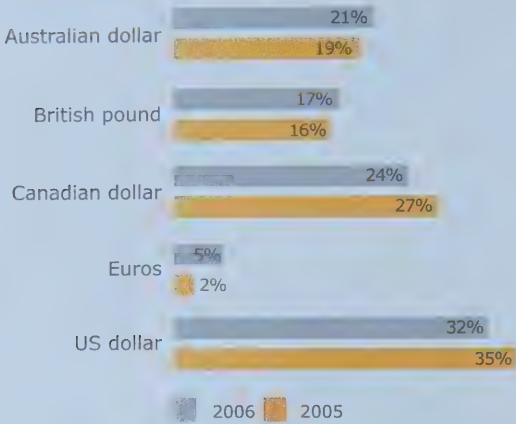
Matrikon operates internationally; accordingly, contracts are in various local currencies, including United States dollars, Australian dollars, British pounds and Euros. The conversion of our international segments' operating results into Canadian dollars for financial statement presentation may impact quarterly results and comparison between prior periods, particularly when exchange rates fluctuate rapidly.

Matrikon enters forward contracts to partially manage exposure to currency fluctuations between the United States (US) and Canadian dollars. Forward contracts are entered based on projected cash conversion requirements. Approximately 76% of the company's billings are received in foreign currencies, while approximately 65% of the expenses are in Canadian dollars.

MANAGEMENT'S DISCUSSION & ANALYSIS

As Matrikon expands internationally, the growing diversity of the revenue currencies should serve to offset currency fluctuations. Revenue denominated in foreign currencies other than US dollars or Canadian dollars increased from 38% in 2005 to 44% in fiscal year 2006.

% Billings by Currency



Ability to Retain and Attract Qualified Employees and Contain Payroll Expenses

Executive management, senior technical personnel and other key personnel are essential to our business. The loss of the services of any of these persons could have a material adverse effect on the business. As a growing company, our ability to develop, market and support our products and deliver services could be harmed if Matrikon is not able to recruit and retain qualified personnel. In addition, payroll is a significant component of costs for our consulting and implementation groups. Local labour market conditions can impact labour expenses.

To mitigate these risks, Matrikon offers competitive compensation packages, unique and challenging career opportunities and maintains close ties with academic institutions that train specialists in the fields in which it operates. Our corporate culture supports diversity, creativity, and equality and values integrity and innovation.

In addition to providing a challenging and rewarding work environment, Matrikon's social activities and corporate culture foster creativity and teamwork. Matrikon was named one of the Top 100 Employers in Canada in 2006.

Availability of Credit Line and Future Financing

The company may require additional funds through public or private financing, strategic relationships or other arrangements to meet future growth objectives. There can be no assurance that it will be able to obtain additional funding on favorable terms, if at all. If Matrikon cannot raise funds on acceptable terms, if and when needed, we may not be able to develop or enhance products and services, expand the business, acquire complementary businesses or technologies, respond to

competitive pressures or unanticipated requirements, or take advantage of future opportunities, which could have a material adverse effect on our business.

Matrikon is cash flow positive and currently has cash and equivalents of \$18.32 million which, coupled with our existing line of credit of \$7.00 million, we believe is sufficient to meet our growth objectives and will enable the company to take advantage of opportunities for strategic acquisitions.

Research and Development

If Matrikon does not respond effectively and on a timely basis to rapid technological change, its products and services may become obsolete and customer loss could result. The markets for our products are characterized by:

- rapid and significant technological change;
- frequent new product introductions and enhancements;
- changing customer demands; and
- evolving industry standards.

To mitigate this risk, Matrikon is committed to research and development to ensure our continued technological leadership position. In addition to internal research and development, Matrikon sponsors two Industrial Research Chairs at the University of Alberta and an Australian Research Council Centre of Excellence at the University of Newcastle.

Other strategies for minimizing this risk include Matrikon's industry and product advisory boards, which keep us informed of changes in our clients' technological direction and future needs, and membership and active involvement with industry standards organizations, which helps to ensure that our products comply with industry standards and to identify emerging trends.

Length of Sales Cycle

The lengthy sales cycle required to close larger projects makes it difficult to predict quarterly revenue levels and operating results. The sales process for larger projects and solutions can be lengthy and can exceed one year. Moreover, to the extent that Matrikon succeeds in shifting customer purchases toward corporate license agreements and larger solutions, the sales cycle may lengthen, which could increase the likelihood of delays and cause the effect of a delay to become more pronounced and cause quarterly operating results to fluctuate.

As Matrikon transitions to a solutions company, the dynamics of the sales cycle and our close rates are evolving. This makes predicting sales timings and probability based on past results difficult. Delays in sales could cause shortfalls in our revenues and operating results for any particular period.

Matrikon has focused on building the sales and marketing infrastructure to support our transition to a solutions company, including holding sales success workshops, hiring senior sales personnel and hiring industry experts to address our solution positioning in each core vertical industry.

Biweekly sales meetings also serve as a platform for sharing experiences amongst sales staff and providing an opportunity to learn from each individual's successes and failures.

In addition, account planning has become a critical success element for larger solutions and account plans are reviewed regularly with senior sales personnel. The sales pipeline is continually monitored to ensure that relative weightings are accurate.

Increasing Expenses

A high percentage of our expenses are relatively fixed and growing as we expand our operations and our employee base in anticipation of future sales volume. Therefore, a delay in completing a license transaction, closing a solution sale or delays in meeting project milestones for revenue recognition may cause significant variations in operating results quarter to quarter.

We seek to mitigate this risk through our project management office and the establishment of best practices for project management, including regular monitoring and analysis of projects.

In addition, we have plans to implement an ERP solution to aid our ability to monitor and control expenses. We will continue to invest in sales and marketing and research and development to position Matrikon for future growth.

As our business transitions to large solution sales which will typically be delivered over multiple periods, we expect that fluctuations in quarterly operating results should be minimized.

Legal Claims

Intellectual property claims and other claims against the company could be time consuming and costly to defend. If we are unsuccessful, our ability to use intellectual property in the future could be limited or we may have to pay damages.

Matrikon has established policies that require all staff to comply with intellectual property laws. License agreements are obtained and staff is periodically reminded of their duty to observe these licenses.

Our license agreements with clients typically contain provisions designed to limit exposure to potential liability claims. In our agreements for the provision of services, we also try to negotiate limitations on liability. Despite this, it is possible that such provisions may not be effective as a result of existing or future laws or

unfavorable judicial decisions. We have not received to date any product liability claims nor claims regarding services. A successful liability claim could result in significant monetary liability and could seriously disrupt our business.

We seek to minimize the risk of liability claims through a thorough quality assurance process, continual development of our products, and staff training. Further, we continually monitor changes to laws and the results of court cases, and strive to keep our agreements up to date to mitigate any claims.

Intellectual and Intangible Properties

We rely on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect our proprietary rights. We provide software products to customers under non-exclusive, non-transferable license agreements.

In order to protect its intellectual property rights, Matrikon does not sell or transfer title to our products to our customers. Instead, under our standard form license agreement, licensed software may be used solely for the customer's internal operations at sites specified in the license contract. However, this affords only limited protection. As our industry is subject to rapid technological change, we believe that factors such as new product development, product enhancement, name and brand recognition, and customer service and support are important in establishing and maintaining a technological advantage.

Integration of Operations

If Matrikon fails to integrate the operations of the companies it acquires, it may not realize the anticipated benefits and operating costs could increase. Matrikon continues to pursue strategic acquisitions that will provide complementary geographic and/or vertical industry exposure. The identification and pursuit of these acquisition opportunities and the integration of acquired personnel, technologies and businesses require a significant amount of management time and skill. There can be no assurance that:

- suitable acquisition candidates can be identified
- any acquisition will be consummated on acceptable terms
- Matrikon will be able to successfully integrate any acquired business into its operations.

Acquisitions also expose Matrikon to potential risks, including diversion of management's attention, failure to retain key acquired personnel, assumption of legal or other liabilities and contingencies, and the amortization of acquired intangible assets. Moreover, customer dissatisfaction with, or problems caused by, the performance of any acquired products or technologies could hurt Matrikon's reputation.

These risks are mitigated through a thorough due diligence process, which includes measuring a potential acquisition against Matrikon's growth strategy, interviewing key personnel and reviewing the cultural fit, reviewing financial, legal, and market issues related to the potential acquisition, talking to a sample of clients from the customer base and, in some cases, conducting character investigations for the company principals.

International Operations

Business may suffer if there is a failure to address the challenges associated with international operations. Approximately 76% of total revenues were from customers outside of Canada in fiscal year 2006. It is expected that revenues from customers outside Canada will continue to account for a significant portion of total revenues for the foreseeable future. Operations outside Canada are subject to additional risks, including:

- unexpected changes in regulatory requirements, exchange rates, tariffs and other barriers
- political and economic instability
- difficulties in staffing and managing foreign subsidiary operations
- difficulties and delays in translating products and product documentation into foreign languages
- difficulties and delays in negotiating software licenses compliant with Canadian accounting revenue recognition requirements
- potentially adverse tax consequences

To mitigate these risks, Matrikon fully researches the business and economic environment of a country before beginning business in the country. In countries with which Matrikon is unfamiliar, an agent familiar with the region will act on our behalf through the tender and negotiation process. Our Partner Growth Program also minimizes risk related to working in international countries where language and cultural norms differ from North America.

In addition, Matrikon's culturally diverse employee base has enabled us to offer training to clients in numerous languages.

Management's Report on Internal Control over Financial Reporting

Management is responsible for certifying the design of the Company's internal control over financial reporting as required by Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

Our internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial

statements for external purposes in accordance with applicable GAAP. Internal Control over Financial Reporting should include those policies and procedures that establish the following:

- maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of our assets
- reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable GAAP
- receipts and expenditures are only being made in accordance with authorizations of management and the Board of Directors
- reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the CEO and CFO, carried out an assessment of the design of the Company's internal controls over financial reporting and concluded that the following disclosable weaknesses existed, as at August 31, 2006.

Business Combinations

The company determined that it did not sufficiently design effective controls over the acquisition process. Specifically, the Company does not have an overriding policy framework that would apply to all potential acquisitions to ensure all accounting and other issues are addressed. Additional procedures have been performed by the Company in order to ensure that the acquisition recorded in the consolidated financial statements was prepared in accordance with GAAP.

In 2007, we plan to develop a policy framework that will apply to all potential acquisitions.

We believe we are taking the steps necessary for the remediation of this weakness and will continue to monitor the effectiveness of these procedures and to make any changes that management deems appropriate.

Future Tax Assets

The Company determined that it did not sufficiently design and maintain effective controls over the assessment of the recoverability of future tax assets and the appropriateness of their valuation allowances. Specifically, the Company did not have effective controls in place related to the processes around the underlying data used to support the recoverability of future tax assets. Additional procedures have been performed by the Company in order to ensure that the consolidated financial statements were prepared in accordance with GAAP.

In 2007, we plan to take the following steps to improve our internal controls to this issue.

- Develop and implement a policy that requires an analysis over the recoverability of all future tax assets and the appropriateness of the valuation allowances.
- Add additional internal resources in the accounting department and provide additional tax accounting training for key personnel.

We believe we are taking the steps necessary for the remediation of this weakness and will continue to monitor the effectiveness of these procedures and to make any changes that management deems appropriate.

Lease Accounting

The Company determined that it did not sufficiently design and maintain effective controls over our lease accounting. Specifically, the Company did not have a formal policy and procedure in place to ensure that leases signed in the year have been accounted for correctly, as it pertains to lease inducements and scheduled lease increases. Additional procedures have been performed by the Company in order to ensure that the consolidated financial statements were prepared in accordance with GAAP.

In 2007 we plan to develop a policy that requires all new material lease contracts and accounting for such be reviewed by someone competent in the area.

We believe we are taking the steps necessary for the remediation of this weakness and will continue to monitor the effectiveness of these procedures and to make any changes that management deems appropriate.

Disclosure Controls

The CEO and CFO are responsible for establishing and maintaining the disclosure controls and procedures of Matrikon, and have so certified, as required by Multilateral Instrument 52-109. These officers have evaluated the effectiveness of Matrikon's disclosure controls and procedures and have concluded that the disclosure controls and procedures at Matrikon provide management a reasonable level of assurance that information required to be disclosed by Matrikon on a continuous basis and in annual and interim filings or other reports is recorded, processed, summarized, and reported or disclosed on a timely basis as required.

MANAGEMENT'S RESPONSIBILITY

Matrikon's management has prepared and is responsible for the annual consolidated financial statements, management's discussion and analysis and all other information in this annual report. The accompanying consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Management is responsible for ensuring that these financial statements, which include amounts based upon estimates and judgments, are consistent with other information and operating data contained in the annual report and reflect our true business transactions and financial position.

Management is also responsible for the information disclosed in the management's discussion and analysis section, including responsibility for the development of appropriate information systems, procedures and internal controls to ensure that the information used internally by management and disclosed externally is complete, relevant and reliable in all material respects.

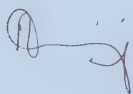
The integrity and reliability of Matrikon's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and the appropriate delegation of authority and division of responsibilities.

Matrikon's business code of conduct, which is communicated to all levels in the organization, requires employees to maintain high standards in their conduct of the corporation's affairs.

The independent auditors, KPMG LLP, whose report on their examination follows, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The auditors' report outlines the nature of their examination and their opinion on Matrikon's consolidated financial statements.

The board of directors annually appoints an audit committee comprised of independent, financially literate and unrelated directors. This committee meets regularly with management and the shareholders' auditors to review significant accounting, reporting and internal control matters. KPMG LLP have unrestricted access to the audit committee. The audit committee reviews the financial statements, the auditors' report, and management's discussion and analysis and submits its report to the board of directors for formal approval. The audit committee is responsible for recommending external auditors for appointment by the shareholders annually.

The board of directors is responsible for reviewing and final approval of the consolidated financial statements and for ensuring that management fulfills its financial reporting responsibilities.



Amin Rawji
President & CEO

Edmonton, Alberta
November 10, 2006



Tariq Malik, CA
Chief Financial Officer

AUDITORS' REPORT

We have audited the consolidated balance sheets of Matrikon Inc. as at August 31, 2006 and 2005 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, sans-serif font, with 'LLP' in a smaller, bold, sans-serif font to the right.

Chartered Accountants
Edmonton, Canada
November 10, 2006

CONSOLIDATED BALANCE SHEETS

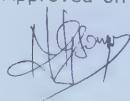
ANADIAN DOLLARS

August 31, 2006, with comparative figures for August 31, 2005

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents (note 4(a))	\$ 18,316	\$ 10,546
Accounts receivable (note 5(d))	20,640	20,782
Contracts in progress	5,308	3,557
Future income taxes (note 5(a))	631	639
Prepaid expenses	1,237	1,076
	<u>46,132</u>	<u>36,600</u>
Restricted cash (note 4(b))		2,302
Future income taxes (note 5(a))	1,293	1,474
Capital assets (note 6)	2,515	2,572
Intangible assets (note 7)	615	633
Goodwill	13,919	11,926
	<u>\$ 64,474</u>	<u>\$ 55,507</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,765	\$ 6,502
Deferred revenue	7,565	4,073
Income taxes payable	931	2,364
Future income taxes (note 5(a))	943	828
	<u>16,204</u>	<u>13,767</u>
Future income taxes (note 5(a))	311	518
Shareholders' equity:		
Share capital (note 9)	29,248	27,125
Contributed surplus (note 9(a))	1,602	1,501
Retained earnings	17,109	12,596
	<u>47,959</u>	<u>41,222</u>
Commitments (note 12)		
Contingencies (note 13)		
	<u>\$ 64,474</u>	<u>\$ 55,507</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the board:



Nizar J. Somji
Chairman



Janice G. Rennie, FCA
Chair of the Audit Committee

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS)

Year ended August 31, 2006, with comparative figures for 2005

	2006	2005
Revenue:		
Consulting fees	\$ 48,770	\$ 45,990
Software license fees	13,247	10,454
Equipment sales	5,802	5,751
Extended support	6,002	5,618
	73,821	67,813
Cost of sales	33,291	31,094
Gross profit	40,530	36,719
Expenses:		
Consulting	8,148	8,030
Sales & marketing	9,270	8,098
Research & development (note 5(d))	3,809	3,388
General & administrative	7,865	5,854
Amortization	1,543	1,726
Total expenses	31,635	27,096
Income before the undernoted	8,895	9,623
Foreign currency translation loss	(886)	(1,475)
Compensation expense (note 9(b) to (d))	(839)	(829)
Other income (expenses) (note 11)	306	524
	(1,419)	(1,780)
Income before income taxes	7,476	7,843
Income taxes expense (recovery) (note 5):		
Current	2,578	3,253
Future	(232)	(642)
	2,346	2,611
Net income	5,132	5,232
Retained earnings, beginning of year	12,596	7,364
Purchase of common shares in excess of stated capital (note 9(e))	(612)	-
Retained earnings, end of year	\$ 17,109	\$ 12,596
Earnings per share:		
Basic earnings per share	\$ 0.17	\$ 0.175
Diluted earnings per share	\$ 0.16	\$ 0.171
Weighted average number of shares outstanding (000s) (note 9(g)):		
Basic	31,020	29,842
Diluted	31,459	30,546

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

ANADIAN DOLLARS

Year ended August 31, 2006, with comparative figures for 2005

	2006	2005
Operating activities:		
Net income	\$ 5,132	\$ 5,232
Items not affecting cash:		
Future income taxes	(232)	(642)
Unrealized foreign exchange loss (gain)	613	(116)
Amortization	1,543	1,726
Compensation expense	839	829
Loss (gain) on disposal of assets	271	(1)
Change in non-cash operating working capital	(761)	(667)
Cash provided by operating activities	7,405	6,361
Investing activities:		
Cash restricted for business acquisition, net of holdback	(2,302)	(2,302)
Business acquisition net of cash acquired (note 3)	(1,540)	2
Purchase of capital assets	(1,179)	(1,441)
Proceeds from disposal of capital assets	-	2
Cash provided by (used in) investing activities	(417)	(3,739)
Financing activities:		
Proceeds of share issue, net of share issue costs	1,653	1,613
Redemption of common shares	(871)	-
Cash provided by financing activities	782	1,613
Change in cash and cash equivalents	7,770	4,235
Cash and cash equivalents, beginning of period	10,546	6,311
Cash and cash equivalents, end of period	\$ 18,316	\$ 10,546
Supplementary cash flow disclosure:		
Income taxes paid	\$ 4,011	\$ 1,610
Interest recovered	432	88

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(THOUSANDS OF CANADIAN DOLLARS)

1. Nature of Operations

Matrikon Inc., (the "Corporation"), was incorporated on May 27, 1999 under the Alberta Business Corporations Act and is the continuing operation of Matrikon Consulting Inc., a privately held Corporation which was incorporated on September 21, 1988. The Corporation is engaged in the sale of industrial intelligence software and the provision of professional services. The Corporation's head office is located in Edmonton, Alberta, with sales and offices in the international marketplace.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the following significant accounting policies:

(a) Basis of Consolidation:

The consolidated financial statements include the accounts of Matrikon Inc., and its wholly owned subsidiaries: Matrikon International, Inc., Matrikon (Australia) Pty Limited, Matrikon Business Systems Inc., Matrikon UK Limited, Matrikon Deutschland AG, and TigrSoft (India) Private Ltd., a 99.7% owned subsidiary. The results of the operations from businesses acquired during the year are included from their respective dates of acquisition.

(b) Use of Estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates made by management. Significant estimates used in the preparation of these consolidated financial statements include the percentage of completion estimates of contracts in progress and deferred revenue, allowances for doubtful accounts receivable, tax provisions, the fair value of identifiable intangible assets acquired in business acquisitions, future cash flows used to estimate the fair value of reporting units for goodwill impairment purposes, as well as the estimated useful lives of intangible assets and capital assets. Actual results may differ from these estimates.

(c) Revenue Recognition:

The Corporation's revenue consists primarily of consulting fees, software license fees, equipment (third-party hardware or software sales), and extended support fees.

Revenue from fixed fee consulting contracts is recognized using the percentage of completion method. Under this method, consulting revenue is recognized on the ratio of contract costs incurred to total estimated costs. Provisions for estimated losses on incomplete contracts are made in the period in which the losses are determined. Revenue from time and material contracts is recognized as costs are incurred. Revenue is calculated based on billing rates for the services performed. Contracts in progress represent work in progress that has been recognized as revenue but not yet invoiced to clients. Deferred revenue includes amounts that have been invoiced to clients but not yet recognized as revenue.

Equipment sales are ancillary to consulting projects and revenue is recognized when delivered.

Software license revenues are recognized upon the customer's execution of a software license agreement, the receipt of a purchase order and shipment of the software, provided that no significant vendor obligations remain outstanding. Where significant vendor obligations are negotiated, software license revenues are recognized only after these obligations have been satisfied. Extended support revenues are deferred and recognized on a straight line basis over the term of the support period, which is usually one year.

Revenue for multi-element arrangements is recognized when there is evidence that an arrangement exists, delivery has occurred, the fees are fixed or determinable, and collectability is probable. The fees are allocated on the basis of vendor specific objective evidence using the residual method of accounting. Revenue is then recognized for each element in the same manner as noted above for the respective single element agreements.

(d) Capital Assets:

Capital assets are recorded at cost less accumulated amortization. Amortization commences once the assets are placed into service and is calculated using the following methods and annual rates:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(THOUSANDS OF CANADIAN DOLLARS)

Asset	Amortization Method	Rate
Computer hardware	Declining balance	30%
Computer software	Declining balance	100%
Furniture & equipment	Declining balance	20%
Automotive	Declining balance	30%
Leasehold improvements	Straight line	15-33%

(e) Goodwill and Intangible Assets:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated to the Corporation's reporting units that are expected to benefit from the synergies as of the date of the business combination. Goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment loss would be recognized if the carrying value of the goodwill exceeded its fair value. Management has established the fourth quarter as the period to test for any impairment of goodwill.

Intangible assets acquired either individually or with a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Costs incurred in the maintenance of the service potential of an intangible asset are expensed as incurred.

Intangible assets with finite lives are amortized over their useful lives. The amortization methods and estimated useful lives of intangible assets, which are reviewed annually, are as follows:

Asset	Amortization Method	Rate
Technology rights	Straight line	33%
Drivers, software technology & customer lists	Straight line	10-100%

(f) Research and Development:

Research and development costs relate principally to software products intended for licensing to end user customers. Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria under Canadian generally accepted accounting principles for deferral and amortization, in which case, development costs are capitalized and amortized over their useful life. Scientific Research and Experimental Development (SR&ED) tax credits receivable in relation to these costs are recorded using the cost reduction method. Changes to the estimated quantity of tax credits recoverable for prior periods are recorded as Other income or Other expenses.

(g) Translation of Foreign Currencies:

Transactions denominated in a foreign currency and the financial statements of the Corporation's integrated foreign subsidiaries are translated using the temporal method. Accordingly, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at the monthly average exchange rate (except amortization expense, which is translated at historical exchange rates). Exchange gains and losses arising on the translation of monetary assets and liabilities are included in the determination of net income. The Corporation does not have any self-sustaining foreign operations.

(h) Derivative Financial Instruments:

The Corporation is party to certain derivative financial instruments, principally forward currency exchange contracts to manage the risks associated with future cash flows. These derivative contracts are not recognized in the consolidated financial statements on inception nor accounted for as hedges. Instead, they are marked to market and any changes in the market value are recorded in income or expense when the change occurs. The fair value of these instruments is recorded as accounts receivable or payable.

(i) Income Taxes:

In preparing the consolidated financial statements, the Corporation recognizes income taxes in each jurisdiction in which it operates. The Corporation uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between

the financial reporting and the tax basis of assets and liabilities using the substantively enacted tax rates and laws that will be in effect when these differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Future tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized.

(j) Stock Based Compensation:

The Corporation accounts for all stock based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after September 1, 2002, using the fair value based method. Consideration paid by employees on the exercise of stock options is recorded as share capital.

Under the fair value based method, employee compensation that is a direct award of stock, or stock appreciation rights that call for settlement by the issuance of equity instruments, is measured at fair value at the grant date and recognized over the vesting period. For awards that vest at the end of the period, compensation cost is recognized on a straight line basis.

(k) Earnings Per Share:

Basic earnings per share is computed by dividing net income by the weighted average shares outstanding during the reporting period. Diluted earnings per share is computed using the treasury stock method, by dividing net income by the weighted average shares outstanding adjusted for additional shares from the assumed exercise of stock options, restricted share units, or warrants, if dilutive. The number of additional shares is calculated by assuming the outstanding dilutive stock options are exercised and that the assumed proceeds are used to acquire common shares at the average market price during the period.

(l) Recent Accounting Pronouncements:

In January 2005, the Canadian Institute of Chartered Accountants (CICA) issued new accounting standards: Handbook Section 1530, "Comprehensive Income", Handbook Section 3251, "Equity", Handbook Section 3855, "Financial Instruments-Recognition and

Measurement" and Handbook Section 3861, "Financial Instruments-Disclosure & Presentation". These standards are effective for interim and annual financial statements for the Corporation's reporting period beginning on or after October 1, 2006, specifically the year beginning September 1, 2006. The Corporation is assessing the impact of the new standards.

3. Business Acquisitions

Acquisitions are accounted for under the purchase method of accounting, and the results of earnings since the respective dates of acquisition are included in the consolidated statements of income.

(a) Matrikon Deutschland AG:

On September 1, 2005, the Corporation acquired 100% of the shares of Matrikon Deutschland AG ("MDAG"). The operating results of MDAG are included in these consolidated financial statements for the period since the date of acquisition. MDAG, located in Koln, Germany, is a system integrator providing industrial IT project execution.

The aggregate purchase price was \$2,372 comprised entirely of cash of \$2,315 plus associated acquisition costs of \$57.

The following table summarizes the total purchase price consideration and the estimated fair values of the assets and liabilities assumed at the date of acquisition.

Cash	\$ 832
Other current assets	596
Intangible asset – Customer list	430
Intangible asset - Non-competition agreement	16
Non-current assets	122
Goodwill	2,042
Current liabilities	(1,452)
Non-current liabilities	(214)
Fair value of net assets acquired	\$ 2,372

The amounts ascribed to customer contracts and relationships and the non-competition agreement will be amortized over 1 to 5 years. The Company anticipates that amounts ascribed to intangible assets and goodwill will not be deductible for income tax purposes. Goodwill related to this acquisition has been allocated to the Europe segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(THOUSANDS OF CANADIAN DOLLARS)

Under the terms of the acquisition agreement, an amount of 157 EUR (\$230 CAN) was released to the former shareholders of MDAG during the year, as various conditions for the release of the hold back were satisfied.

At August 31, 2006, goodwill has been reduced by \$182 due to the realization of tax loss carry forwards not eligible for recognition at the date of acquisition.

(b) Resolution Integration Solutions, Inc.:

In fiscal 2005, the Corporation acquired certain assets and liabilities of Resolution Integration Solutions ("Resolution"). The original purchase price allocation was based upon preliminary estimates and assumptions. Accordingly, these allocations were subject to revision when the Corporation received final information on certain balances.

During the year, the Corporation revised the Resolution purchase price allocation by recording a future income tax liability on the intangible assets acquired in the amount of \$149. This additional liability assumed has resulted in a corresponding increase in goodwill during the period. In addition, the Corporation released 324,338 common shares that were held in escrow to the previous owners of Resolution. A revision has been made to the purchase price allocation by recording a reduction to goodwill in the amount of \$16. This reduction to goodwill has resulted in a corresponding decrease in share capital during the year.

The following table summarizes the revised estimated fair values of the assets and liabilities assumed at the date of acquisition.

Cash	\$ 2
Other current assets	681
Intangible asset – Intellectual Property	315
Intangible asset – Customer List	63
Non-current assets	32
Goodwill	1,392
Current liabilities	(892)
Non-current liabilities	(124)
Fair value of net assets acquired	\$ 1,469

4. Cash and Cash Equivalents

(a) Cash and Cash Equivalents:

The Corporation considers deposits in banks, certificates of deposit and unrestricted investments with initial maturities of three months or less as cash and cash equivalents. The major components of cash and cash equivalents are as follows:

	2006	2005
Cash on deposit	\$ 18,316	\$ 10,546

(b) Restricted Cash:

The balance of restricted cash at August 31, 2006 is \$nil (2005 - \$2,302)

5. Income Taxes

(a) Future Income Taxes:

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities are presented below:

Future Tax Assets:	2006	2005
Non-capital loss carry forward	\$ 1,647	\$ 1,120
Capital assets, principally due to differences in cost and amortization	46	5
Intangible assets, principally due to differences in cost and amortization	217	349
Deferred charges	80	-
Unrealized foreign exchange losses	202	485
Other payables	429	154
	2,621	2,113
Less: valuation allowance	(697)	-
Total gross future tax assets	\$ 1,924	\$ 2,113

Future Tax Liabilities:	2006	2005
Capital assets, principally due to differences in cost and amortization	\$ -	\$ (18)
Intangible assets, principally due to differences in cost and amortization	(235)	(97)
Contracts in progress	(410)	(242)
Investment tax credits	(533)	(788)
Deferred charges	(76)	(189)
Other payables	-	(12)
Total gross future tax liabilities	(1,254)	(1,346)
Net future tax asset	\$ 670	\$ 767

Presented in the consolidated balance sheets as follows:

	2006	2005
Current assets	\$ 631	\$ 639
Non-current assets	1,293	1,474
Current liabilities	(943)	(828)
Non-current liabilities	(311)	(518)
	\$ 670	\$ 767

(b) Income Tax Provision:

The income tax provision differs from the amounts computed by applying the combined statutory income tax rate of 31.8% (2005 – 33.1%) to fiscal 2006 income before income taxes as a result of the following:

	2006	2005
Income before income taxes	\$ 7,478	\$ 7,843
Computed "expected" tax expense	2,378	2,599
Increase in income taxes, resulting from:		
Permanent differences & other	(32)	12
Recorded tax expense	\$ 2,346	\$ 2,611

(c) Losses Carried Forward:

At August 31, 2006 the Corporation had non-capital losses of approximately \$2,375 (2005 – \$2,843) that may be carried forward and used to reduce taxable income in future years. Losses incurred in the United States are subject to the restrictions in Section 382 of the Internal Revenue Code. The non-capital losses expire as follows:

Year of Expiry	Amount
2019	\$ 523
2020	1,102
2021	115
2023	33
2025	602
	\$ 2,375

The Corporation also has an additional \$1,742 of non-capital losses available to reduce taxable income in future years. The benefits of these losses have not been recorded in these financial statements and have been offset by a valuation allowance.

(d) Scientific Research and Experimental Development Tax Credits (SR&ED):

The Corporation accrues SR&ED tax credits recoverable in relation to research and development expenses incurred. The impact on the consolidated statements of income and retained earnings is a reduction of research and development expenses of \$700 (2005 – \$600) and the consolidated balance sheets include investment tax credits of \$1,597 (2005 – \$2,345) in accounts receivable.

In addition, other income includes \$35 of SR&ED tax credits receivable for prior periods (2005 – \$166).

6. Capital Assets

	Cost	Accumulated Amortization	2006 Net book value
Computer hardware	\$1,602	\$ 576	\$1,026
Computer software	565	462	103
Furniture & equipment	3,039	1,817	1,222
Leasehold improvements	455	326	129
Automotive	69	34	35
	\$5,730	\$3,215	\$2,515

	Cost	Accumulated Amortization	2005 Net book value
Computer hardware	\$3,174	\$2,092	\$1,082
Computer software	1,880	1,689	191
Furniture & equipment	2,755	1,684	1,071
Leasehold improvements	607	396	211
Automotive	46	29	17
	\$8,462	\$5,890	\$2,572

Amortization provided for in the current year totals \$1,079 (2005 – \$1,070) and is based on management's estimate of the useful life of the assets.

7. Intangible Assets

	Cost	Accumulated Amortization	2006 Net book value
Customer lists	\$1,142	\$647	\$495
Drivers & software technology	407	287	120
	\$1,549	\$934	\$615

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(THOUSANDS OF CANADIAN DOLLARS)

	Cost	Accumulated Amortization	2005 Net book value
Technology rights	\$1,138	\$1,138	\$ -
Customer lists	1,080	733	347
Drivers & software technology	407	121	286
	\$2,625	\$1,992	\$633

Amortization for the current period totals \$464 (2005 - \$656) and is based on management's estimate of the useful life of the assets.

8. Bank Indebtedness

The Corporation has an authorized line of credit of \$7,000 with a Canadian chartered bank bearing a floating interest rate of 0.25% above the bank's prime lending rate. The Corporation has provided a general security agreement covering all assets of the Corporation as security for the facility. No amounts were drawn under this facility as at August 31, 2006 or August 31, 2005.

9. Share Capital

(a) Issued Shares

	Share Capital		Contributed Surplus
	# of Shares	\$000s	\$000s
Authorized in unlimited numbers:			
Common shares issued			
Balance: 31-Aug-04	29,383,297	\$23,624	\$1,188
Shares issued for acquisition	328,266	1,371	-
Stock options exercised	528,604	1,290	319
Warrants exercised	185,005	555	-
Employee stock ownership plan	99,631	285	(6)
Balance: 31-Aug-05	30,524,803	\$27,125	\$1,501
	Share Capital		Contributed Surplus
	# of Shares	\$000s	\$000's
Balance: 31-Aug-05	30,524,803	\$27,125	\$1,501
Shares withheld for acquisition (Note 3b)	(3,928)	(16)	-
Normal course issuer bid	(268,700)	(252)	-
Stock options exercised	720,145	2,003	(193)
Warrants exercised	31,828	95	-
Employee stock ownership plan	88,570	293	80
Restricted share units	-	-	214
Balance: 31-Aug-06	31,092,718	\$29,248	\$1,602

(b) Stock Options:

The Corporation has a stock option plan under which its directors and employees may receive options to purchase Common Shares at a price equal to market value at the date of granting. Current options granted expire five years after the vesting date, however prior options issued were valid for 10 year periods. 3,500,000 Common Shares were reserved for the exercise of these options. During fiscal 2006, the stock option plan was discontinued. The following stock options, with expiry dates up to January 2013, remain outstanding:

	Number of Options	Weighted Average Exercise Price
Balance: 31-Aug-04	1,957,360	\$2.12
Granted	344,000	\$3.65
Exercised	(528,604)	\$2.00
Cancelled	(57,456)	\$2.63
Balance: 31-Aug-05	1,715,300	\$2.45
Granted	25,500	\$4.15
Exercised	(720,145)	\$2.16
Cancelled	(175,790)	\$3.65
Balance: 31-Aug-06	844,865	\$2.56

The following table summarizes information about share options outstanding at August 31, 2006:

Range of Exercise Prices (\$)	Weighted Average Remaining Contractual Life (years)	Options Outstanding		Options Exercisable	
		Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
1.36-1.69	2.19	35,300	\$1.63	35,300	\$1.63
1.70-1.99	2.32	226,047	\$1.85	226,047	\$1.85
2.00-2.49	1.36	231,568	\$2.03	231,568	\$2.03
2.88-3.60	3.90	223,450	\$3.07	198,450	\$3.00
4.11-4.15	4.79	128,500	\$4.14	109,000	\$4.14
	2.84	844,865	\$2.56	800,365	\$2.49

The following table summarizes information about share options outstanding August 31, 2005:

Range of Exercise Prices (\$)	Options Outstanding		Options Exercisable		
	Weighted Average Remaining Contractual Life (years)	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
1.36-1.69	3.15	66,350	\$1.56	66,350	\$1.56
1.70-1.99	2.69	597,963	\$1.86	546,463	\$1.86
2.00-2.49	2.20	419,337	\$2.03	419,337	\$2.03
2.88-3.60	5.49	501,650	\$3.17	241,650	\$2.97
4.11-4.15	5.68	130,000	\$4.13	-	\$ -
	3.63	1,715,300	\$2.45	1,273,800	\$2.11

The fair value of common share options is estimated at the grant date using the Black Scholes pricing model based on the following assumptions:

	2006	2005
Risk free interest rate	3.80%	3.45%
Expected life	3 years	3 years
Expected volatility	51%	59%
Expected dividends	-	-
Fair value per share option granted	\$1.72	\$1.52

During fiscal 2006, the Corporation recorded \$252 (2005 – \$550) in compensation expense related to stock options. In addition, \$445 (2005 – \$231) has been reclassified from contributed surplus to share capital in relation to the exercise of share options.

(c) Employee Stock Ownership Program:

The Corporation also has an Employee Stock Ownership Program ("ESOP"), whereby the Corporation will issue one Common Share from Treasury at no cost for every two shares that are purchased in the market by an employee and held for 16 months. Common Shares valued to a maximum of 10% of the employee's earnings in the prior calendar year may be registered for participation in the program at the end of every fiscal quarter. During fiscal 2006, the registration period for participation in the program was changed to the end of every calendar quarter.

During fiscal 2006, the Corporation recorded compensation expense of \$466 (2005 – \$351) with a

corresponding credit to contributed surplus relating to the employee stock ownership plan. In addition, \$293 (2005 - \$286) has been reclassified from contributed surplus to share capital relating to the issuance of matching shares under this program during the year. The following table summarizes common shares eligible to be issued under the program:

Date of Registration	Common Shares Eligible for Issuance	Date Eligible for Issuance
May-05	13,324	Sep-06
Aug-05	12,816	Dec-06
Nov-05	13,683	Mar-07
Mar-06	52,727	Jul-07
Jun-06	3,883	Oct-07

During fiscal 2006 the Corporation recognized a reduction in compensation expense of \$93 (2005 – \$72) with respect to forfeitures of common shares eligible to be issued under the ESOP.

d) Restricted Share Units:

During the year, the Corporation adopted a stock compensation plan to grant Restricted Share Units ("RSUs") to employees, officers and directors of the Corporation. Under this plan, the holders of RSUs will be eligible, at a future date, to receive Common Shares to be issued from Treasury of the Corporation for no additional consideration. The only performance condition is that the employee, officer or director remains employed with the Corporation during the vesting period. The cost of the RSU is equal to fair market value at the respective dates of grant and compensation expense will be recognized on a straight line basis over its vesting period. RSUs will vest over a three-year period.

In June 2006, an aggregate of 94,500 RSUs were awarded. These RSUs will vest at a rate of 31,500 units per year on the first, second, and third anniversary dates respectively. In July and August 2006, an aggregate of 1,269,000 RSUs were awarded. These RSUs will vest at a rate of 25% on the first anniversary date, 33% on the second anniversary date, and 42% on the third anniversary date respectively. The fair market value of RSUs granted during the year was \$4,741. During fiscal 2006, the Corporation recorded compensation expense of \$214 with a corresponding credit to contributed surplus relating to this RSU grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(THOUSANDS OF CANADIAN DOLLARS)

The maximum number of additional RSUs available under the RSU plan is currently 1,745,771 (2005 - not applicable).

e) Normal Course Issuer Bid:

The Corporation instituted a Normal Course Issuer Bid ("NCIB") through the Toronto Stock Exchange. Under the NCIB, up to 1,559,248 Common Shares may be purchased for cancellation. This bid commenced on May 17, 2006 and will expire on May 17, 2007. The excess of the purchase price over the average stated value of shares purchased for cancellation was charged to retained earnings.

During fiscal 2006, the Corporation purchased 268,700 shares for cancellation under a NCIB at a weighted average cost of \$3.24 per share. The excess of \$619 over the average stated value of shares purchased was charged to retained earnings.

f) Warrants:

The Corporation has nil common share warrants outstanding. In 2005, there were 31,828 common share warrants that were convertible into an equivalent number of common shares at \$3.00. These warrants were fully exercised during the year.

g) Earnings Per Share:

For fiscal 2006, the weighted average number of shares outstanding for the purposes of calculating basic earnings per share was 31,019,872 (2005 - 29,841,579).

In calculating diluted earnings per share, the weighted average number of shares outstanding (denominator), has been increased by 343,086 (2005 - 563,316) in respect of stock options and warrants and by 96,433 (2005 - 141,250) in respect of the Corporation's ESOP. The diluted weighted average number of shares outstanding was 31,459,391 (2005 - 30,546,145). There are no items that impact the numerator for both fiscal 2006 and 2005 in calculating diluted earnings per share.

10. Segmented Information

Matrikon operates the following business segments, which have been segmented based on the way management organizes the segments within the business for making operating decisions and assessing performance. In the current year, Matrikon changed the structure of its internal organization in a manner that caused the composition of its reportable segments to

change. Beginning in fiscal 2006, Matrikon's segmented disclosure is based on the Canada, United States, Australia, Europe, and Corporate segments. In the previous year, Eastern Canada was combined with the United States and Products was presented as a segment. Segmented information from the prior year has been restated to conform to financial statement presentation for the current year:

12 months ended 31-Aug-06	Canada	United States	Australia	Europe	Corporate	Total
Revenue	38,012	7,088	16,720	12,001	-	73,821
Cost of sales	16,449	2,894	9,769	4,179	-	33,291
Gross margin	21,563	4,194	6,951	7,822	-	40,530
Expenses	(14,812)	(3,062)	(4,010)	(2,662)	(7,089)	(31,635)
Other income and foreign exchange gain (loss)	-	(2)	73	144	(1,632)	(1,417)
Net income (loss) before tax	6,751	1,130	3,014	5,304	(8,721)	7,478
Goodwill	4,698	2,032	1,666	5,523	-	13,919
Capital assets	1,346	55	834	280	-	2,515

12 months ended 31-Aug-05 Restated	Canada	United States	Australia	Europe	Corporate	Total
Revenue	41,367	5,047	13,666	7,733	-	67,813
Cost of sales	17,426	2,385	8,533	2,750	-	31,094
Gross margin	23,941	2,662	5,133	4,983	-	36,719
Expenses	(14,260)	(2,577)	(3,525)	(2,016)	(4,718)	(27,096)
Other income and foreign exchange gain (loss)	(1)	-	-	261	(2,040)	(1,780)
Net income (loss) before tax	9,680	85	1,608	3,228	(6,758)	7,843
Goodwill	4,698	1,899	1,666	3,663	-	11,926
Capital assets	1,585	143	691	153	-	2,572

11. Other Income (Expenses)

	2006	2005
Scientific Research & Development (Note 5d)	\$35	\$166
Interest income	432	293
Gain (loss) on disposal of capital assets	(271)	1
Sundry expense recoveries	112	64
	\$308	\$524

12. Commitments

(a) Forward Contracts:

The Corporation has entered into foreign currency forward contracts to manage cash flows between currencies for a short-term period. The fair values of these contracts, estimated using market rates at August 31, 2006, were \$192 (2005 – \$319).

At August 31, 2006, the Corporation was committed to the following forward exchange contracts to sell United States dollars:

Expiry Date	Amount Contracted (us\$)	Rate
September 2006	\$1,000	1.17
October 2006	1,000	1.17
November 2006	1,000	1.17

(b) Leases:

The Corporation has a number of lease commitments relating to office space and equipment. Lease terms range from 3 to 64 months expiring between September 2006 and August 2012. In addition to minimum lease payments, office facility leases require payment of the Corporation's proportionate share of real estate taxes and building operating expenses. A schedule of minimum lease payments under operating leases are as follows:

	Amount
2007	\$1,973
2008	1,463
2009	1,038
2010	908
2011	727
Subsequent years	491
	\$6,600

13. Contingencies

(a) Tax Matters – Loss Carry Forwards:

During fiscal 2005, the Australian taxation authorities (ATO) indicated that they disagreed with the tax losses claimed by Matrikon Pty Limited (Australian subsidiary of Matrikon Inc.) in the amount of \$796 AUD (\$732 CAN) for company tax returns filed in 2002, 2003, and 2004. The outcome of this matter was resolved during the year and the ATO indicated that the Corporation has met all of the criteria required to fully utilize the

loss carry forwards obtained from the acquisition of Hunter Control Pty Limited.

(b) Legal Claims:

The Corporation and its subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate unrecorded liability of the Corporation arising from these claims is immaterial.

14. Fair Value of Financial Instruments

The fair value of cash & cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate the carrying values because of their near-term maturity.

15. Credit Risk

Financial instruments that subject the Corporation to credit risk consists primarily of accounts receivable. Accounts receivable are derived from sales to diverse clients in various industries and sectors of the economy and its credit risk is not concentrated in any particular client, industry, economic or geographic sector. Credit review and collection procedures are in place and provisions are maintained for potential credit losses.

16. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial presentation adopted during the current year.

MATRIKON OFFICES WORLDWIDE



Canada

Edmonton, Alberta
Calgary, Alberta
Fort McMurray, Alberta
Vancouver, British Columbia
Toronto, Ontario
Quebec City, Quebec

United States

Houston, Texas
St. Louis, Missouri
Cleveland, Ohio

Australia

Brisbane, Queensland
Gladstone, Queensland
Newcastle, New South Wales
Melbourne, Victoria
Perth, Western Australia

Other

Hamilton, New Zealand
Aberdeen, Scotland
Köln, Germany
Al-Hidd, Bahrain

Senior Management Team

Amin Rawji — President & Chief Executive Officer
Tariq Malik — Chief Financial Officer
Dave Shook — Chief Technical Officer
Gordon Freund — General Counsel
Floyd Bjorgan — Vice-President, Canadian Operations
Ian Brown — Vice-President, EMEA

Mike Brown — Vice-President, Products
Jeff Gould — Vice-President, Sales
Randy Kondor — Vice-President, Marketing
Karim Moti — Vice-President, US Operations
Sam Crisafulli — Managing Director, Australia

CORPORATE PROFILE

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Website : www.matrikon.com

Visit us online for more information about Matrikon. You will find current financial and corporate information, news releases, product announcements and other information relevant to our shareholders.

Email Alerts:

Subscribe to our email alerts to receive timely information about what's happening at Matrikon. Register online at www.matrikon.com/investors or email ir@matrikon.com with Email Alert Signup in the subject line.

Stock Exchange:

Toronto Stock Exchange: Trading Symbol "MTK"

Share Owner Services:

Contact Olympia Trust for shareholder related services, including:

- Account status inquiries for registered shareholders
- Change of address for registered shareholders
- Stock transfers
- Issues related to share certificates

Email: malcolmi@olympiustrust.com

Online: www.olympiustrust.com

Phone: 888-242-2220

Fax: 403-265-1455

Legal Counsel:

Fraser Milner Casgrain LLP

Auditors:

KPMG LLP

Bank:

HSBC Bank Canada

Investor Relations

I look forward to hearing from you! Please feel free to contact me with your questions or comments. Based on your feedback, we strive to continually improve our communication with you.
Nicole Sayler

Email: ir@matrikon.com

Phone: 780-945-4010 or

1-877-628-7456 extension 4010

Annual General Meeting of Shareholders:

We invite you to join us at the annual shareholders meeting:

Wednesday, January 10, 2007

1:00 pm Mountain Time

Matrikon's Headquarters

1800, 10405 Jasper Avenue

Edmonton, Alberta

Historic Share Price:

	High	Low	Volume
2006			
Q4	\$5.05	\$2.94	2,090,678
Q3	\$5.50	\$4.75	2,373,316
Q2	\$5.75	\$4.36	4,021,994
Q1	\$4.96	\$3.91	3,780,880
2005			
Q4	\$5.30	\$3.95	4,491,357
Q3	\$4.26	\$3.20	1,851,622
Q2	\$3.57	\$2.84	1,426,544
Q1	\$3.25	\$2.65	871,207

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